



UCSF

University of California San Francisco Foundation

Financial Statements

June 30, 2023 and 2022

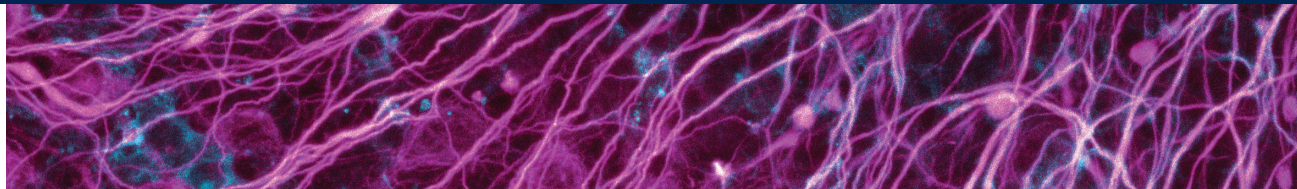


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FRONT COVER: (top left) At the 12th Annual Health & Harvest Fair in the Bayview community of San Francisco, UCSF medical, dental and pharmacy students provide free dental and health screenings and interactive demos on healthy eating and brushing.

(top right) Diagnostic slides of brain tumors in Dr. David Solomon’s lab at UCSF’s Parnassus campus. His research isolating and sequencing tumor tissue is changing the way patients are diagnosed and treated. The arbor vitae, Latin for 'tree of life', of the cerebellum contains numerous axons (in magenta) that are wrapped in myelin by oligodendrocytes (in cyan). Cerebellar staining models allow for robust study of devastating disease such as multiple sclerosis (MS) that result in significant loss of myelin.

BACK COVER: (top left) Deng Pan, staff research associate, and Thea Tlsty, PhD, professor in the department of Pathology and Director of the Center for Translational Research in the Molecular Genetics of Cancer analyze film, or a “western blot,” that measures the amount of an anti-tumorigenic molecule that is down-regulated in the tumor’s micro-environment, in the Tlsty Lab, at the Parnassus campus.

(bottom right) Detail in lab of UCSF Assistant Professor in Cellular Molecular Pharmacology Faranak Fattahi, PhD, at UCSF’s Mission Bay campus.

Letter From the Vice Chancellor

University Development and Alumni Relations

With deep gratitude to UCSF's supporters, I am pleased to present the UCSF Foundation Audited Financial Report for fiscal year 2022-2023.



Inspired by UCSF's mission, donors to the University contributed more than \$634.5 million in cash in fiscal year 2022-2023 to fuel innovations in patient care, research, and education. Our attainment number, including new

commitments to be paid over future years, was \$767.3 million. We are humbled to have surpassed our fundraising goals for the fiscal year despite economic challenges that impacted the region, state, and nation.

UCSF's continued long-term success was strengthened this year by endowment gifts designated for specific purposes, such as support for the University's brilliant faculty, leading-edge research programs, and scholarships for the next generation of health care leaders. As of this report, the UCSF Foundation endowment stands at more than \$2.7 billion. Payout from the endowment rose to more than \$100.0 million for fiscal year 2022-2023.

Our donors are essential partners in UCSF's efforts to take on urgent health challenges. With the philanthropic investments made in fiscal year 2022-2023, we made significant progress toward key priorities across the research, clinical, and educational enterprises. We also raised additional funds in support of our Parnassus Heights revitalization project, which ultimately will result in an academic medical center for the next century – one that delivers state-of-the-art, lifesaving care centered on the patient experience and helps define the future of medicine.

I appreciate our committed community of donors, leadership, and staff across UCSF, the UCSF Foundation, and the UCSF Foundation Investment Company for their roles in advancing the University's mission and for making fiscal year 2022-2023 a success.

Sincerely,

A handwritten signature in black ink, appearing to read 'Erin Hickey'.

Erin Hickey

Vice Chancellor
University Development and
Alumni Relations

University of California San Francisco Foundation

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

The Management's Discussion and Analysis is intended to help readers of the University of California San Francisco Foundation (Foundation) financial statements better understand the Foundation's financial position and operating activities for the year ended June 30, 2023. It includes selected comparative information for the years ended June 30, 2022 and 2021. As an unaudited discussion prepared by management, it should be read in conjunction with the financial statements and notes to the financial statements. Unless otherwise indicated, years 2023, 2022 and 2021 in this discussion refer to the fiscal years ended June 30.

The Foundation implemented Governmental Accounting Standards Board (GASB) Statement 84, *Fiduciary Activities*, in 2021, requiring funds held for others to be reported as custodial investment funds, with reductions in related assets and liabilities on the Foundation's Statements of Net Position.

ORGANIZATIONAL OVERVIEW

The Foundation was established in 1982 as a not-for-profit corporation dedicated to providing assistance in fundraising, public outreach and other support for the mission of the University of California San Francisco (UCSF) and The Regents of University of California (The Regents). The Foundation is affiliated with and its assets are dedicated to UCSF, and it is governed by an independent Board of Directors. Expenditures of the Foundation are generally limited to distributions in support of UCSF and affiliated entities, and normal administrative expenses. Gifts to the Foundation support the mission of UCSF, including funding priorities in research, education and clinical care. Gifts received by the Foundation are held and invested until distributed to UCSF and affiliated entities for spending in support of UCSF's mission. Private support to UCSF comes through several channels, and gifts to the Foundation comprise only a part of UCSF's total revenue from philanthropy.

As a separate corporation, the Foundation publishes audited financial statements and, in accordance with GASB Statement No. 39, its financial statements are also separately presented in the University of California's financial statements as a component unit in a separate column titled "Campus Foundations." The Foundation's financial statements reflect gifts made to the Foundation and other related financial activities. Gifts made to UCSF through The Regents or affiliated entities, such as Benioff Children's Hospital & Research Center Oakland Foundation (BCH Oakland Foundation) are not included in the Foundation's financial statements.

The UCSF Foundation Investment Company (Investment Company) was formed by the Foundation's Board of Directors in 2015 as a nonprofit organization to manage the Foundation's endowed investment pool. The Investment Company is led by its Chief Investment Officer, and it is governed by a Board with extensive knowledge of the investment industry, finance and business. As the sole member of the Investment Company, the Foundation appoints the Investment Company Board. Under GASB standards, the Investment Company is presented as a blended component in the Foundation's financial statements.

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PRIVATE SUPPORT OVERVIEW

UCSF total private support for 2023 is \$634.5 million, comprising over 42,000 gifts and grants from individuals, including alumni and patients, corporations, foundations and other supporters, and ranging in size from a few dollars up to several million dollars. Approximately 68.5% of UCSF's private support in 2023 came through gifts and pledge payments made to the Foundation. While a substantial number of donors reside in the immediate Bay Area, given the international reputation of UCSF's schools and UCSF Health, the Foundation also receives gifts from donors throughout the U.S. and worldwide.

Reflecting its status as a leading university dedicated to the health sciences, UCSF has consistently ranked among the top institutions in philanthropic support. The Voluntary Support of Education (VSE) Survey, published annually by the Council for Advancement and Support of Education (CASE), is the leading national source of information on philanthropy to higher education, collecting data from more than 800 participating institutions on contributions received on a cash basis. UCSF has ranked in the top 10 of participating institutions since 2018, and in the top 5 in three of those years.

in millions of dollars

Year	UCSF Private Support	VSE Ranking
2022	\$755.1	3
2021	\$712.9	6
2020	\$826.7	4
2019	\$622.8	10
2018	\$730.3	5

Private gift reporting through the VSE Survey is on a cash basis and is not based on GASB financial reporting standards, which reflect accrual-based Generally Accepted Accounting Principles (GAAP). For example, private support reporting recognizes pledge revenue as payments are received, while GAAP generally recognizes pledge revenue when the pledge is made.

FINANCIAL HIGHLIGHTS - 2023

- The Foundation's net position is \$3,610.0 million as of June 30, 2023, an increase of \$669.7 million or 22.8% over June 30, 2022 net position of \$2,940.3 million. The increase is due primarily to the following:
 - Investment results increase of \$108.4 million.
 - Contributions and additions to permanent endowments totaling \$1,037.9 million.
 - Distributions to UCSF and affiliated organizations in support of the University's mission totaling \$469.2 million.
- Operating income, including spendable gifts, and additions to permanent endowments increased 73.2% from 2022 to 2023. At \$1,037.9 million, 2023 is another record year for

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charitable giving for UCSF Foundation. Prior year results in 2022 and 2021, at \$599.2 million and \$566.2 million, respectively, were also among the highest achieved by the Foundation.

- Operating expenses include distributions of gift and endowment income to UCSF and affiliated entities for use as donors intended in support of UCSF's mission. For 2023, \$469.2 million was distributed to UCSF and affiliates, an increase of \$32.7 million from \$436.5 million distributed in 2022. Distributions have increased to record levels each year since 2020.
- Nonoperating (loss) income, comprising net investment income and change in fair market value of Foundation investments, was \$108.4 million and (\$173.3) million for 2023 and 2022, respectively. Net investment income increased from \$7.8 million in 2022 to \$14.9 million in 2023, and the change in fair market value of investments was \$93.5 million for 2023, and (\$181.1) million for 2022.

USING THIS REPORT

This annual report consists of financial statements prepared in accordance with GAAP, including the statements of the GASB. These statements focus on the financial condition of the Foundation, its changes in net position and its cash flows, taken as a whole. Statements are prepared using the accrual basis of accounting.

THE FOUNDATION'S RESULTS OF OPERATIONS

The Statements of Revenues, Expenses and Changes in Net Position provide information on the Foundation's financial condition and changes year-over-year. Activities are classified as operating or nonoperating, with gifts and disbursements to UCSF and affiliates reported as operating revenue and expense, respectively, and investment results reported as nonoperating revenue or expense. Unlike for-profit enterprises, a decrease in net position in the Statements of Revenues, Expenses and Changes in Net Position is not necessarily indicative of poor financial performance because the Foundation's mandate is to make disbursements in support of UCSF's mission.

Investment Company results are combined with those of the Foundation, and its expenses are reported with the Foundation's operating results.

University of California San Francisco Foundation
Management's Discussion and Analysis (Unaudited)
June 30, 2023 and 2022

in millions of dollars

	2023	2022	2021
Operating revenues & expenses			
Contributions (net of change in allowance)	\$ 999.4	\$ 513.6	\$ 427.4
Distributions to UCSF and affiliates	(469.2)	(436.5)	(369.9)
Management and general expenses	(7.4)	(7.7)	(6.5)
Net operating income	522.8	69.4	51.0
Nonoperating (loss) income			
Net investment income	14.9	7.8	.2
Net (decrease) increase in fair value of investments	93.5	(181.1)	617.4
Nonoperating (loss) income	108.4	(173.3)	617.6
Additions to permanent endowments	38.5	85.6	138.8
(Decrease) increase in net position	669.7	(18.3)	807.4
Net position			
Beginning of year	2,940.3	2,958.6	2,151.2
End of year	\$ 3,610.0	\$ 2,940.3	\$ 2,958.6

A summarized comparison of the operating results for 2023, 2022 and 2021 follows.

The Statements Revenues, Expenses and Changes in Net Position present operating and nonoperating revenues and expenses and report an increase in the Foundation's net position of \$669.7 million for 2023, compared to a decrease of (\$18.3) million and an increase of \$807.4 million in 2022 and 2021, respectively. Changes in net position consist of net operating income (loss), nonoperating income (loss) and additions to permanent endowments.

Operating Revenues and Expenses

Operating income (loss) consists primarily of gifts to the Foundation, offset by distributions to UCSF and affiliated entities from gifts received and investment income, and operating expenses. While distributions often coincide with receipt and recognition of revenue, the timing might not always occur in the same year, and operating losses can occur when distributions in any particular year exceed revenue for that year.

For 2023, the Foundation reported net operating income of \$522.8 million, compared to net operating income of \$69.4 million and \$51.0 million for 2022 and 2021, respectively. Contribution revenue, including gifts for current use and for quasi-endowments, increased \$485.8 million from \$513.6 million in 2022 to \$999.4 million in 2023; this compares to an increase of \$86.2 million from 2021 to 2022. The increase for 2023 is primarily due to recognition of pledges intended for upcoming UCSF capital projects, specifically the Parnassus Heights Initiative, as well as a significant pledge to support the CRISPR Cures for Cancer Initiative.

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Ultimately, contributions result from donor interests, long-term donor cultivation, and specific appeals for immediate needs. The timing and amounts of gifts are not entirely predictable, and the Foundation expects fluctuations in contribution revenue from year to year.

Distributions to UCSF and affiliates are based on programmatic needs, subject to gift restrictions and the amount available in any particular year. Distributions include transfers of endowment income and gifts intended to fund capital projects and other purposes.

The tables below illustrate how distributions to UCSF and affiliates have changed year-over-year for 2023, 2022 and 2021 in total, and by type of use, based on National Association of College and University Business Officers (NACUBO) functional classifications. NACUBO functional classifications group expenses according to the purpose for which the costs are incurred.

in millions of dollars

	2023	2022	2021
CAPITAL PROJECTS			
Mission Bay Block 23A Weill Neurosciences Building	\$ 1.2	\$ 9.8	\$ 10.8
Mission Bay Block 33 Center for Vision Neuroscience Building	1.0	1.0	1.2
Mission Bay Precision Medicine Cancer Building	0.5	10.3	4.7
Sandler Neurosciences Conference Center	0.2		1.9
Nancy Friend Pritzker Psychiatry Building	-	5.5	
Mission Bay Hospital Complex			9.7
Zuckerberg San Francisco General Academic and Research Building			1.9
Total to UCSF and Affiliates for Capital Projects	2.9	26.6	30.2
OTHER NONCAPITAL PROJECTS			
Research/Faculty Support	296.1	292.9	233.6
Institutional support	113.4	62.8	66.2
Instruction	18.9	17.3	15.9
Student Financial Aid	16.0	17.2	11.4
Academic Support	11.0	8.7	1.8
Medical Center/Teaching Hospital	8.2	2.7	4.2
Other	2.7	8.3	6.6
Total to UCSF and Affiliates for Noncapital Projects	466.3	409.9	339.7
Total Distributions to UCSF and Affiliates for Spending	\$ 469.2	\$ 436.5	\$ 369.9

Management and general expenses decreased \$0.3 million from \$7.7 million in 2022 to \$7.4 million in 2023, and increased \$1.2 million from \$6.5 million in 2021 to \$7.7 million in 2022, primarily reflecting the costs of Foundation and Investment Company operations.

Nonoperating Income

Nonoperating income includes the results of all investment activities, which is a source for endowment payout and for Foundation operating expenses. Nonoperating income shown in the Statements of Revenues, Expenses and Changes in Net Position excludes investment results allocated to Custodial Investment Funds or External Pool Participants.

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Net investment income consists of dividends, interest and other investment income offset by investment management fees. Net investment income increased significantly, totaling \$14.9 million, an increase of \$7.1 million from 2022; at \$7.8 million, 2022 net investment income increased \$7.6 million from 2021. The increase in net investment income for 2023 is primarily attributable to generally rising interest rates, and management's decision to redirect cash previously invested in the Regents Short Term Investment Pool (STIP) program to U.S. Treasuries, primarily short term (4-26 week) T-Bills as the short end of the yield curve offered the best returns. The Foundation plans to continue this strategy into 2024, for as long as it provides the opportunity for increased income, without added risk.

Net increase (decrease) in fair value of investments, consisting of net realized gain (loss) and change in unrealized gain (loss), was \$93.5 million for 2023, compared to (\$181.1) million for 2022 and \$617.4 million for 2021. Change in fair value reflects results for unendowed, endowed and trust investment activities.

For 2023, the Foundation's Endowed Investment Pool (EIP) return, including investment income and expense and change in fair market value, is 4.3%. Markets faced volatility arising from a dynamic rate environment, banking crisis, inflation and geopolitical events. The endowment's performance was driven by the quarter of the endowment in Public Equity, which recovered some value this year, returning 16.7%. Most of those gains came since the start of the calendar year. As private markets continued to mark portfolios down following equity markets last year, Premium Return, which makes up 35% of the endowment, was down 2.0%. Diversifying Investments added positive, more muted return for the year, up 3.5%.

EIP return for 2022 was -6.6% driven by weak equity markets. Public Equity investments fell 25% and Premium Return (Private Equity) fell a more modest 2.0%. Diversifying Investments make up about one-third of the portfolio and were a bright spot, rising 5.0%.

EIP return for 2021 was 33.2%, with the Premium Returns (private equity) allocation leading the way, up 56.0%. The Public Equity investments returned almost 37.0%, and the Diversifying Investments (hedge funds) returned 23.0% for the year.

Endowment payout is drawn from the accumulated market value of the EIP, consisting of corpus, current year net investment income, and accumulated income and gains. Payout for 2023 is \$119.2 million, compared to \$107.1 million and \$93.7 million for 2022 and 2021, respectively. These amounts are net of the Foundation's cost recovery fee and represent spendable funds available to campus departments and custodial investment funds (external pool participants), for program support. Total payout increases each year as the Foundation's endowment grows, and payout reflects earnings on funds functioning as endowments that were established with proceeds from the 2018 sale of the Foundation's real estate limited partnership interests.

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Additions to Permanent Endowments

The Foundation's endowment has continued to grow, with investment returns and additions to the EIP driving change year-over-year. For 2023, gifts to permanent endowments decreased \$47.1 million, from \$85.6 million in 2022 to \$38.5 million; additions to permanent endowments totaled \$138.8 million in 2021.

Results do not reflect pledges to permanent endowments. Unlike pledges intended for current spending, under GASB, pledges to permanent endowments are not recognized until payments are received.

Endowment gifts result from donor interests and long-term donor cultivation with the objective of generating steady and lasting income streams to support UCSF's priorities, schools or programs. The timing and amounts of gifts are not entirely predictable, and the Foundation expects fluctuations from year to year.

THE FOUNDATION'S NET POSITION

The Foundation's Statements of Net Position presents all assets, liabilities and deferred inflows of resources and provides information on its net financial position at the end of the year. The difference between assets, liabilities and deferred inflows of resources is net position, which represents a measure of the current financial condition of the Foundation. Over time, increases or decreases in net position is one indicator of the improvement or erosion of the Foundation's financial health when considered with other nonfinancial information.

Major components of the Foundation's assets, liabilities, deferred inflows and net position as of 2023, 2022 and 2021 are as follows:

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in millions of dollars

	2023	Change	2022	Change	2021	Change
Assets						
Cash and cash equivalents	\$ 169.5	-59.9%	\$ 422.9	56.3%	\$ 270.5	0.1%
Investments	2,795.2	12.1%	2,493.1	-5.1%	2,626.5	37.0%
Pledges	800.4	313.4%	193.6	50.7%	128.5	113.8%
Other assets	27.8	-0.4%	27.9	-23.8%	36.6	-26.4%
Total assets	3,792.9	20.9%	3,137.5	2.5%	3,062.1	33.3%
Liabilities						
Obligations under life income arrangements	24.4	7.5%	22.7	-17.2%	27.4	10.9%
Unearned revenue	23.5	20.5%	19.5			
Other liabilities	105.9	-15.1%	124.8	178.0%	44.9	-51.2%
Total liabilities	153.8	-7.9%	167.0	131.0%	72.3	-38.1%
Deferred inflows of resources						
Deferred inflows from irrevocable split interest agreements	29.1	-3.6%	30.2	-3.2%	31.2	8.0%
Total deferred inflows	29.1	-3.6%	30.2	-3.2%	31.2	8.0%
Net position						
Restricted						
Nonexpendable	1,168.2	3.5%	1,128.6	7.6%	1,048.4	15.5%
Expendable	2,441.4	34.8%	1,811.3	-5.2%	1,909.8	53.6%
Unrestricted	0.4	0.0%	0.4	0.0%	0.4	0.0%
Total net position	\$ 3,610.0	22.8%	\$ 2,940.3	-0.6%	\$ 2,958.6	37.5%

Assets

Total assets for 2023 increased 20.9%, or \$655.4 million, to \$3,792.9 million from \$3,137.5 million at June 30, 2022. This compares to an increase of \$75.4 million, or 2.5%, from 2021 to 2022. Total assets include cash and cash equivalents, investments, pledges, and other assets, including investment income receivable, receivable for investments sold and all other assets.

Cash and investments increased \$48.7 million and \$19.0 million from 2022 to 2023 and 2021 to 2022, respectively. Year-over-year changes in cash and investments are primarily the result of operating cash flows from contributions and disbursements to UCSF, additions to permanent endowments, and nonoperating income. Cash and investment balances include Investment Company balances. Within restricted expendable current use cash and investments, there was a year over year shift in balances from cash to short term investments. This reflects management's decision to redirect cash previously invested in the Regents STIP program to U.S. Treasuries, classified as investments, to achieve higher returns.

Balances in the Statements of Net Position do not include assets associated with External Pool Participants, including Benioff Children's Hospital Oakland Foundation's investment in the Foundation's EIP. These balances are included with Custodial Investment Fund balances in the Statements of Fiduciary Net Position.

Pledge balances increased significantly for the third year. Pledge balances of \$800.4 million as of June 30, 2023 increased \$606.8 million from \$193.6 million in 2022. Pledges totaling \$776.3 million, including new pledges and existing pledges that became eligible for recognition under

University of California San Francisco Foundation

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GASB, were offset by pledge payments and other changes of \$106.5 million. This increase in the pledge receivable was offset by a corresponding net increase in the allowance for uncollectible pledges and discount on multiyear pledges of \$63.0 million. The large increase in new pledges reflects generous donor gifts to the Parnassus Heights Initiative--UCSF Helen Diller Medical Center and the Research and Academic Building projects, and a significant pledge to support the CRISPR Cures for Cancer Initiative.

Pledge balances as of June 30, 2022 and 2021 also increased significantly, after declining for three consecutive years. Pledge balances increased \$65.1 million and \$68.4 million for 2022 and 2021, respectively, with new pledges totaling \$116.1 and \$176.1 million offset by payments of \$50.3 million and \$105.8 million for each year.

Financial statement balances do not reflect conditional pledges that will be recognized when conditions, contingencies or milestone events specified by donors are met, or nonbinding intentions that donors may satisfy through other entities, such as donor advised funds or related foundations. In addition, revenue associated with endowment pledges is not recognized until payments are received.

Other assets decreased \$0.1 million from \$27.9 million in 2022 to \$27.8 million in 2023, and \$8.7 million from \$36.6 million in 2021 to \$27.9 million in 2022. Other assets include receivable for investments sold and prepaid investment subscriptions, investment income receivable, beneficial interests in irrevocable split-interest agreements administered by third parties, and all other assets. The year-over-year change from 2022 to 2023 is primarily due to an increase in receivable for investments sold offset by decreases in prepaid investment subscriptions and investment income receivable. The receivable for investments sold reflects timing differences in cash settlements for trades executed just prior to fiscal year end, and prepaid investment subscriptions represent funds released to managers that are pending investment subsequent to year end.

Liabilities

Foundation liabilities decreased \$13.2 million from \$167.0 million at June 30, 2022 to \$153.8 million at June 30, 2023, and increased \$94.7 million from 2021 to 2022. Year-over-year fluctuations generally result from changes in amounts payable to UCSF for funds disbursed at year-end but not funded until the subsequent year, payable for investments purchased, endowment pool payout due to custodial funds and liabilities to beneficiaries under life income arrangements.

Unearned revenue of \$23.5 million at June 30, 2023, increased of \$4.0 million from the prior year. Unearned revenue reflects conditional pledge payments to UCSF Foundation for the joint UC Berkeley-UCSF Program in Computational Precision Health that will be recognized in subsequent years when donor conditions or milestones are met.

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Amounts payable to UCSF for funds disbursed at year-end but not funded until the subsequent year decreased \$27.4 million and increased \$75.0 million from 2022 to 2023 and 2021 to 2022, respectively.

Endowment income payable to Custodial Investment Fund External Pool Participants increased \$11.8 million from 2022 to 2023, and \$0.5 million from 2021 to 2022. The increase for 2023 is primarily due to participants electing 2023 cash payout over reinvestment.

Year over year changes in obligations under life income arrangements, payable for investment purchases and agency funds held for others did not change significantly from prior years.

Balances do not include a liability to External Pool Participants, including Benioff Children's Hospital Oakland Foundation's investments in the Foundation's EIP. These balances are included with Custodial Investment Fund balances in the Statements of Fiduciary Net Position.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of resources that will be recognized as revenue in a future reporting period. They do not represent revenue relating to the current fiscal year, and they are not liabilities owed by the Foundation. Amounts shown as deferred inflows in the Foundation's Statements of Net Position represent the fair value of the Foundation's interest in irrevocable split interest agreements where the Foundation is a trustee and remainderman or in trusts held by third parties where the Foundation is a remainderman.

Year-over-year changes in deferred inflows of resources reflect split interest activity for the year. This activity includes acquisition of new split interest agreements, actuarial changes in liabilities to beneficiaries, and in market value. Revenue is recognized as agreements are realized, and the deferred inflow is reduced.

Net Position

Net position represents the residual interest in assets after all liabilities and deferred inflows of resources are deducted. Net position increased \$669.7 million, or 22.8%, from \$2,940.3 million in 2022 to \$3,610.0 million in 2023, and decreased \$18.3 million, or -0.6%, from \$2,958.6 million in 2021 to \$2,940.3 million in 2022. Net assets are reported in three major categories - restricted nonexpendable, restricted expendable and unrestricted - as follows:

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in millions of dollars

	2023	2022	2021
Restricted nonexpendable	\$ 1,168.2	\$ 1,128.6	\$ 1,048.4
Restricted expendable	2,441.4	1,811.3	1,909.8
Unrestricted	0.4	0.4	0.4
Total net position	\$ 3,610.0	\$ 2,940.3	\$ 2,958.6

Restricted nonexpendable net position includes the corpus of the Foundation's permanent endowments. At \$1,168.2 million, \$1,128.6 million and \$1,048.4 million, restricted nonexpendable net position comprises 32.4%, 38.4% and 35.4% of total net position for 2023, 2022 and 2021, respectively. The increase of \$39.6 million from 2022 to 2023 and \$80.2 million from 2021 to 2022 are primarily due to receipt of gifts intended for permanent endowments, but also includes reclassification of the underwater portion of permanent endowments with market values that are less than their historic gift value from restricted nonexpendable to restricted expendable net assets.

Restricted expendable net position includes gifts that are subject to donor-designated restrictions governing their use by particular entities or programs, or for specific purposes or functions of UCSF. They also include donor and internally designated quasi-endowments that can be expended, and endowment income and change in fair market value. At \$2,441.4 million, \$1,811.3 million and \$1,909.8 million, restricted expendable net position comprises 67.6%, 61.6% and 64.6% of total net position for 2023, 2022 and 2021, respectively. The increase of \$630.1 million from 2022 to 2023 and decrease of \$98.5 million from 2021 to 2022 are primarily due to receipt of current use gifts, gifts and other funds intended for quasi-endowments, investment income, and increase or decrease in fair market value of investments, offset by distributions to UCSF.

Unrestricted net position includes gifts that are not subject to donor-imposed restrictions.

THE FOUNDATION'S SOURCES AND USES OF CASH

Another way to assess the financial health of the Foundation is to look at the Statements of Cash Flows, which provides information about significant sources and uses of cash. A summary comparison of cash flows for 2023, 2022 and 2021 follows:

in millions of dollars

	2023	2022	2021
Net cash (used in) operating activities	\$ (172.2)	\$ (40.1)	\$ (113.5)
Net cash provided by noncapital financing activities	52.9	104.9	119.8
Net cash provided by (used in) investing activities	(134.1)	87.6	(6.1)
Net increase (decrease) in cash and cash equivalents	(253.4)	152.4	.2
Cash and cash equivalents at beginning of year	422.9	270.5	270.3
Cash and cash equivalents at end of year	\$ 169.5	\$ 422.9	\$ 270.5

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Management's Discussion and Analysis (Unaudited)
June 30, 2023 and 2022

Cash used in operating activities ranged between (\$40.1) million and (\$172.2) million over the past three years. These amounts reflect cash flows associated with the fundamental mission of the Foundation and consist primarily of contribution revenue and distributions to UCSF.

Cash flows relating to additions to permanent endowments, and agency and support group funds held for others are reported as noncapital financing activities. Cash flows associated with these activities have ranged between \$52.9 million and \$119.8 million over the past three years.

The year-to-year changes in net cash used in investing activities are largely the result of the routine timing of investment purchases, including investments of cash gifts and pledge payments, and sales of investments, including sales that might be required to generate cash to fund distributions to UCSF or, to a lesser extent, investment income.

LOOKING FORWARD

The level of support UCSF and UCSF Foundation receive each year from alumni, patients, corporations, foundations and other supporters is a testament to UCSF's status as a leading university dedicated to health sciences and advancing health worldwide. This support underscores the continued confidence among donors in the quality of UCSF's programs and the importance of its mission.



Report of Independent Auditors

To the Board of Directors of the University of California, San Francisco Foundation

Opinion

We have audited the accompanying financial statements of the University of California, San Francisco Foundation (the “Foundation”), a component unit of the University of California, which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023 and 2022, and its changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material



if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 be presented to supplement the basic financial statements. Such information is the responsibility of management, 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 supplemental 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 15, 2023

University of California San Francisco Foundation
Statements of Net Position
June 30, 2023 and 2022

<i>in thousands of dollars</i>	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 141,467	\$ 339,329
Short-term investments	194,339	37,758
Receivable for investments sold	21,991	19,979
Accrued investment income	510	362
Pledges receivable, net	104,657	43,287
Other current assets	20	20
Current assets	462,984	440,735
Noncurrent assets		
Investments, excluding endowments and trusts	79,916	112,885
Cash and cash equivalents, endowments	28,090	83,581
Investments, endowments	2,470,027	2,292,163
Investments, trusts	50,876	50,248
Accrued investment income, endowments	1,496	2,865
Pledges receivable, net	695,737	150,298
Other noncurrent assets	3,756	4,669
Noncurrent assets	3,329,898	2,696,709
Total assets	3,792,882	3,137,444
LIABILITIES		
Current liabilities		
Payable for investments purchased	4,610	5,144
Annuities payable	816	838
Liabilities to life beneficiaries	1,964	2,157
Other current liabilities	100,922	119,322
Current liabilities	108,312	127,461
Noncurrent liabilities		
Annuities payable	6,335	6,453
Liabilities to life beneficiaries	15,355	13,225
Unearned revenue	23,500	19,500
Other noncurrent liabilities	345	372
Noncurrent liabilities	45,535	39,550
Total liabilities	153,847	167,011
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from irrevocable split interest agreements	29,089	30,172
Total deferred inflow of resources	\$ 29,089	\$ 30,172

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

University of California San Francisco Foundation
Statements of Net Position (Continued)
June 30, 2023 and 2022

<i>in thousands of dollars</i>	2023	2022
NET POSITION		
Restricted		
Nonexpendable		
Endowment corpus	\$ 1,168,239	\$ 1,128,641
Total nonexpendable	1,168,239	1,128,641
Expendable		
Endowment income and net appreciation	319,037	331,107
Quasi-endowments	886,989	831,459
Contributions	1,235,305	648,683
Total expendable	2,441,331	1,811,249
Total restricted	3,609,570	2,939,890
Unrestricted	376	371
Total net position	\$ 3,609,946	\$ 2,940,261

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

University of California San Francisco Foundation
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2023 and 2022

<i>in thousands of dollars</i>	2023	2022
OPERATING REVENUES		
Contributions (net of increase in allowance for uncollectible pledges of \$6,129 and \$558 for 2023 and 2022, respectively) \$	999,404	\$ 513,607
Total operating revenues	999,404	513,607
OPERATING EXPENSES		
Distributions to UCSF and affiliates	469,244	436,563
Management and general expenses	7,314	7,693
Total operating expenses	476,558	444,256
Operating income	522,846	69,351
NONOPERATING REVENUES (EXPENSES)		
Net investment income	14,919	7,826
Net increase (decrease) in fair value of investments	93,457	(181,144)
Total nonoperating revenues (expenses)	108,376	(173,318)
Income (loss) before other changes in net assets	631,222	(103,967)
OTHER CHANGES IN NET POSITION		
Additions to permanent endowments	38,463	85,638
Increase (decrease) in net position	669,685	(18,329)
NET POSITION		
Beginning of year	2,940,261	2,958,590
End of year	\$ 3,609,946	\$ 2,940,261

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

University of California San Francisco Foundation
Statements of Cash Flows
Year Ended June 30, 2023 and 2022

<i>in thousands of dollars</i>	2023	2022
Cash flows from operating activities		
Contributions	\$ 331,593	\$ 326,713
Distributions to UCSF and affiliates	(496,688)	(361,566)
Payments to beneficiaries	(2,906)	(2,892)
Payments for administrative or operating expenses	(7,523)	(7,263)
Other receipts	3,352	4,879
Net cash (used in) operating activities	(172,172)	(40,129)
Cash flows from noncapital financing activities		
Contributions for permanent endowment purposes	37,319	95,213
Proceeds from line of credit		91,000
Payments under line of credit		(91,000)
Other receipts	15,601	9,732
Net cash provided by noncapital financing activities	52,920	104,945
Cash flows from investing activities		
Proceeds from sales of donated securities	65,107	93,142
Proceeds from sales and maturities of investments	1,125,498	712,278
Purchases of investments	(1,334,368)	(727,212)
Investment income, net of investment expense	9,662	9,384
Net cash provided by (used in) investing activities	(134,101)	87,592
Net increase in cash and cash equivalents	(253,353)	152,408
Cash and cash equivalents		
Beginning of year	422,910	270,502
End of year	\$ 169,557	\$ 422,910
Reconciliation of net operating income to net cash used in operating activities		
Net operating income	\$ 522,846	\$ 69,351
Adjustments to reconcile net operating income to net cash used in operating activities		
Receipt of donated securities, excluding permanent endowment	(62,684)	(115,890)
Change in allowance for uncollectible pledges	6,129	558
Change in unamortized discount on pledges	56,861	204
Changes in assets and liabilities		
Pledges receivable	(669,799)	(65,797)
Annuities payable and liabilities to life beneficiaries	3,148	1,295
Deferred inflows	(991)	749
Other assets and liabilities, net	(27,682)	69,401
Net cash (used in) operating activities	\$ (172,172)	\$ (40,129)
Supplemental noncash activities		
Operating activities - Contributions	\$ 57,425	\$ 115,786
Noncapital financing - Additions to permanent endowments	\$ 2,451	\$ 2,796
Beneficial interest in irrevocable split-interest agreements	\$ 5,260	\$ 105

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

University of California San Francisco Foundation
Custodial Investment Funds
June 30, 2023 and 2022

Statements of Fiduciary Net Position

	Custodial Investment Funds	
<i>in thousands of dollars</i>	2023	2022
ASSETS		
Noncurrent assets		
Investments	\$ 334,973	\$ 336,383
Total assets	334,973	336,383
NET POSITION HELD IN CUSTODIAL FUNDS		
Custodial investment funds, restricted	334,973	336,383
Total net position held in custodial funds	\$ 334,973	\$ 336,383

Statements of Changes in Fiduciary Net Position

	Custodial Investment Funds	
<i>in thousands of dollars</i>	2023	2022
ADDITIONS		
New additions	\$ 1,516	\$ 6,148
Reinvested distributions	175	11,293
Change in fair market value of investments, net	(3,101)	(40,166)
Total additions	(1,410)	(22,725)
DEDUCTIONS		
Withdrawals		(573)
Total withdrawals	-	(573)
Increase in net position held in custodial funds	(1,410)	(23,298)
NET POSITION		
Beginning of year	336,383	359,681
End of year	\$ 334,973	\$ 336,383

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

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2023 and 2022

ORGANIZATION

The University of California San Francisco Foundation (Foundation) was incorporated on May 25, 1982, and is dedicated to fundraising, public outreach and other support for the mission of the University of California San Francisco (UCSF) and The Regents of the University of California (The Regents). The Foundation is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code (Code) and qualifies for exemption from income taxes under Section 501(a) of the Code and under Section 23701d of the California Revenue and Taxation Code.

The Foundation is subject to the policies of The Regents. Through its policy on campus foundations, The Regents have established administrative guidelines for the Foundation that provide a general framework over its operations, limiting expenditures to disbursements in support of UCSF and affiliated entities and normal administrative costs.

The Foundation is governed by an independent Board of Directors, which includes the Chancellor of UCSF. It is affiliated with and its assets are dedicated to UCSF and, accordingly, it is considered a governmental not-for-profit organization subject to reporting under the Governmental Accounting Standards Board (GASB).

Under GASB standards, the Foundation's financial statements are discretely presented in the University of California's financial statements as a component unit, combined with the other University of California campus foundations.

In 2015, the Foundation's Board of Directors formed the UCSF Foundation Investment Company (Investment Company), a nonprofit organization, to manage the Foundation's endowed investment pool and other investment assets. The Investment Company is led by the Chief Investment Officer (CIO) and is governed by a separate Board of Directors (Investment Company Board) with extensive knowledge of investments, asset management, finance and business. The Foundation is the sole member of the Investment Company and appoints the Investment Company Board. Under GASB standards, the Investment Company is presented as a blended component in the Foundation's financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Foundation's significant accounting policies applied in preparation of these financial statements are as follows:

Basis of accounting. The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the GASB. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting. All intercompany balances and transactions have been eliminated.

Cash and cash equivalents. Cash and cash equivalents consist of bank deposits and balances in money market funds held in nationally recognized banking institutions and balances held in The Regents Short Term Investment Pool (STIP). STIP has the general characteristics of a demand deposit account, in that participants can deposit and withdraw cash at any time without prior notice or penalty. Balances include amounts held for endowment purposes that are classified as noncurrent cash and cash equivalents.

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2023 and 2022

At June 30, 2023 and 2022, the carrying amount of the Foundation's cash and cash equivalents was \$169.6 million and \$422.9 million, respectively, compared to bank balances of \$169.5 million and \$422.9 million, respectively. Differences between the carrying amounts and bank balances, if any, are primarily attributable to deposits in transit and cash awaiting investment. Included in bank balances are deposits in STIP of \$127.8 million and \$334.1 million at June 30, 2023 and 2022, respectively.

Bank balances are collateralized by U.S. government and corporate money market securities held in the name of the bank, with the remaining uncollateralized bank balances insured by the Federal Deposit Insurance Corporation (FDIC) up to the Standard Maximum Deposit Insurance Amount of \$250,000 per depositor and account ownership category at each institution. The Foundation's uncollateralized cash balances totaling \$1.5 million are covered by the FDIC Standard Maximum Deposit Insurance as of June 30, 2023.

The Foundation does not have exposure to foreign currency risk in its demand deposit accounts.

Investments. Investment securities are reported at a fair value. To the extent available, valuations are based on quoted prices in active markets, and the Foundation's investments that are listed on any U.S. or non-U.S. recognized exchanges are based on readily available market quotations. When such inputs do not exist, fair value measurements are based on the best available information and may require a degree of judgment. For alternative investments, which include limited partnership investments in private equity, real estate, absolute return and hedge funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

The Foundation exercises due diligence in assessing the policies, procedures and controls implemented by its external investment managers, and believes these values reflect a reasonable estimate of fair value. Such due diligence procedures include, but are not limited to, ongoing communication, on-site visits, and review of information from external investment managers as well as review of performance. In conjunction with these procedures, estimated fair value is determined by consideration of other factors, such as market conditions, redemption terms and restrictions, and risks inherent in the inputs of the external investment manager's valuation. Investments in alternative investments, including limited partnerships, private equity funds, absolute return funds and hedge funds, are reported at a fair value as determined by the general partner of the respective funds after considering factors such as the nature of the underlying portfolios, liquidity and market conditions. Because they are not readily marketable, the fair values may differ from the values that would have been used had a ready market for these investments existed. Direct investments in real estate are stated at a fair value as established by independent appraisals.

Short-term investments consist of U.S. government and corporate obligations with a maturity date of less than one year. All endowment and trust investments are classified as noncurrent regardless of maturity due to restrictions limiting the Foundation's ability to use these investments.

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2023 and 2022

Investment income includes dividend, interest and other investment income, and is shown net of investment manager fees.

The net change in the fair value of investments consists of both realized and unrealized gain and loss on investments. Change in fair value 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.

Change in fair value and net investment income are reported in the Statements of Revenues, Expenses and Changes in Net Position and are net of amounts allocated to Custodial Investment Funds or External Pool Participants.

Trust assets are invested in diversified portfolios of low-cost, no-load mutual funds and are priced at NAV as of fiscal year end.

Endowment, current use and trust funds are managed as follows:

- **Endowed investment pool.** Endowments are invested in a unitized pool, the Endowed Investment Pool (EIP). Transactions within each individual endowment in the EIP are based on the unit market value at the beginning of the month during which the transaction takes place.

EIP assets are managed on a total return basis, and the primary objective of the EIP is to generate returns sufficient to meet the desired financial support to UCSF over the long term. This is to be accomplished while preserving or enhancing purchasing power, maintaining sufficient liquidity, and being cognizant of acceptable levels of volatility. Investments with different types and degrees of risk are appropriate for the EIP, provided that such risks are regularly identified and managed.

Effective January 1, 2009, the Foundation adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides statutory guidance for management, investment and expenditures of endowed funds. For payout purposes, UPMIFA does not distinguish between original corpus, income, and capital appreciation and permits all endowed funds to receive payout as deemed prudent by the Foundation's Board without regard to source of payout.

- **Unendowed investment pool.** The Foundation maintains an Unendowed Investment Pool (UIP). All gifts intended for current expenditure and unspent endowment income are invested in the UIP. UIP accounts are reported at fair value.
- **Trusts and irrevocable split-interest agreements.** Trusts include irrevocable gift annuity, annuity trust and unitrust gifts made to the Foundation in which a designated beneficiary retains an interest in the gift as specified in the trust agreement. The Foundation is trustee and a remainderman for these trusts. At the end of a predetermined period (e.g., the lifetime of the beneficiary specified by the donor), the remaining assets of the trust revert to the Foundation for use as specified by the donor. A liability is established representing the present value of estimated future beneficiary payments, and the remaining amount is recognized as deferred inflow of resources in the period.

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2023 and 2022

The value of the Foundation's beneficial interests in irrevocable split-interest agreements is recognized as deferred inflow of resources in the period in which the Foundation is notified that it is a beneficiary of such an arrangement.

Derivative financial instruments. Derivative instruments are recorded at a fair value, as either assets or liabilities in the Consolidated Statements of Net Position. Futures contracts are valued at the settlement price on the last day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry-standard pricing service, when available.

Changes in the fair value of derivatives that are not hedging derivatives are recorded as net appreciation or depreciation of investments in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Pledges receivable. Pledges are written unconditional promises to make future payments. Pledges receivable, other than endowment pledges, are recognized as contribution revenue in accordance with donor-imposed restrictions, if any, in the period pledged if they meet the eligibility requirements specified by GASB Statement No. 33, *Accounting & Reporting for Nonexchange Transactions*. Endowment pledges are recognized as additions to endowments at the time payments are received. Pledge payments extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is accreted and recorded as additional contribution revenue. In addition, an allowance for uncollectible pledges has been established based on past experience as deemed necessary by management.

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

Other assets. Other assets represent other receivables, beneficial interests in irrevocable split-interest agreements administered by third parties, and the value of securities borrowed for short sale transactions.

Unearned revenue. Unearned revenue is comprised of conditional pledge payments received from a donor where the conditions and milestone events specified by the donor have not yet been met by the University.

Annuities payable and liabilities to life beneficiaries. The Foundation is a trustee and a remainderman under irrevocable split-interest agreements requiring payments for a specified period to designated beneficiaries out of assets held in trust for this purpose. At the end of each fiscal year, annuities payable and liabilities to life beneficiaries are valued using the 2012 IAR mortality table, taking into consideration each beneficiary's age and the value of the gift. The difference between the fair value of trust assets and the liability for beneficiary payments is recorded as deferred inflows of resources at the date of the gift and each subsequent valuation date until termination of the agreement.

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2023 and 2022

Other liabilities. Other liabilities may include agency funds held in for others under an agency relationship between the Foundation and various support groups of UCSF. Such amounts are not assets owned or contributed to the Foundation and, accordingly, are recorded as liabilities and not as revenue when received. The corresponding assets are included in Investments-Excluding Endowments & Trusts, Cash, and other similar assets.

Deferred inflows of resources. The Statements of Net Position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not recognized as an inflow of resources, or revenue, until then. The Foundation classifies its remainder interest and changes in its remainder interest for irrevocable split-interest agreements as deferred inflows of resources.

Custodial investment funds - Funds held for external pool participants. Custodial Investment Funds represent the external portion of the Foundation's governmental investment pool more fully described under Investments. Financial information for Custodial Investment Funds is reported separately in the Statements of Fiduciary Net Position and Changes in Fiduciary Net Position.

Net position. To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, net position and revenues, expenses, and gains and losses are classified and reported as follows, based on the existence or absence of donor-imposed restrictions:

- **Restricted nonexpendable net position.** Restricted nonexpendable net position includes permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing investment income and appreciation that may be expended or added to the principal in accordance with the donor's wishes. The Foundation classifies the original endowment gift and any amounts added to the principal per the donor's wishes as restricted nonexpendable net position.
- **Restricted expendable net position.** Restricted expendable net position represents contributions designated by donors for use by particular entities or programs or for specific purposes or functions of UCSF. They also include quasi-endowments, which are internally restricted net position that can be expended. Investment income and appreciation of endowment investments are classified as restricted expendable net position, unless otherwise specified by the donor.
- **Unrestricted net position.** Unrestricted net position is net position of the Foundation that is not subject to donor-imposed restrictions.

Classification of current and noncurrent assets and liabilities. All assets or liabilities expected to be received or paid, respectively, as part of the Foundation's normal business operations within one year are classified as current assets or liabilities in the Foundation's Statements of Net Position. All assets or liabilities expected to be received or paid, respectively, as part of the Foundation's normal business operations beyond one year are classified noncurrent assets or liabilities in the Statements of Net Position.

Classification of revenues and expenses. Income items that are fundamental to the core mission of the Foundation are recognized as operating revenues in the period received or pledged. Disbursements in support of UCSF and certain administrative expenses incurred in

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2023 and 2022

conducting the business of the Foundation are presented in the financial statements as operating activities.

Nonoperating income and expenses include net investment income and net realized gain (loss) on the sale of investments and change in unrealized appreciation (depreciation) on the value of investments held at the end of the period.

Gifts for permanent endowment purposes are classified as other changes in net position.

Use of estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred outflows and inflows of resources and the disclosure of contingent assets, liabilities, and deferred outflows and inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Income taxes. The Foundation is recognized as tax-exempt under Section 501(c)(3) of the Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes other than tax imposed by Section 511 of the Code on net income derived from an unrelated trade or business (UBIT).

RELATED PARTIES

The Foundation is affiliated with and its assets are dedicated to UCSF, and it has the following organizational relationship with the University:

- **Distributions to UCSF and affiliates.** All contributions to the Foundation ultimately benefit UCSF. For the years ended June 30, 2023 and 2022 distributions to UCSF and affiliated organizations were \$469.2 million and \$436.6 million, respectively, from restricted expendable net position. The accompanying financial statements reflect only contributions made to the Foundation; contributions made directly to UCSF are reflected in the financial statements of UCSF.
- **Administrative costs.** All Foundation business activities are conducted by UCSF employees. UCSF provides facilities and equipment for the Foundation and pays all salaries, benefits, and related expenses for employees, as well as some other operating expenses of the Foundation. The costs of such items are not included in the accompanying financial statements. Under The Regents *Administrative Guidelines for Campus Foundations*, expenses related to investment management, insurance, legal, and other professional services are paid for by the Foundation.

CONFLICTS OF INTEREST

Members of the Foundation's Board of Directors may, from time to time, be associated, either directly or indirectly, with companies doing business with the Foundation. The Foundation has a written conflict of interest policy that requires that no member of the Board can participate in any decision in which they, or an immediate family member, has a material financial interest. Each Board member is required to certify compliance with the Foundation's conflict of interest policy on an annual basis and indicate whether the Foundation does business with any entity in which

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2023 and 2022

the Board member has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict.

A Foundation Board member has an ownership interest in an investment company that manages investments on behalf of the Foundation. The director recuses themselves from all discussions and voting related to the investment.

INVESTMENT OVERSIGHT

As the Foundation's governing body, the Board of Directors retains ultimate fiduciary responsibility and authority for all matters related to investment of Foundation assets. Pursuant to The Regents policies on campus foundations, the Foundation's Board of Directors has elected to oversee the management of its investments rather than delegating that function to the Regents.

The Foundation has entered into an investment management agreement with its Investment Company subsidiary to provide investment management services within the scope of the investment policy approved by the Board of Directors. Investments managed by the Investment Company are associated with the Endowed Investment Pool (EIP).

For the EIP, the Foundation's Board of Directors has delegated authority for oversight of investment policy to the Investment Company Board, with authority for implementation of investment policies further delegated to the Investment Company. Long term, foundational investment policy elements, and any changes thereto, must be approved by the Board of Directors, while more tactical elements, which are updated annually, are approved by the Investment Company Board.

Unendowed Investment Pool. All gifts intended for current expenditure and unspent EIP payout are invested in the UIP. The UIP portfolio is managed so as to maximize returns consistent with safety of principal and liquidity considerations necessary to meet UCSF's cash flow requirements. Investment Guidelines for the UIP provide for investment primarily in readily marketable money market and fixed income securities and STIP. UIP Investment Guidelines address credit quality and concentration of credit risk and provide for performance evaluation against relevant benchmarks.

Endowed Investment Pool. The Foundation's endowment and certain other balances are managed in a unitized investment pool. The EIP is the primary investment vehicle for endowed gift funds, and other balances include external entities who invest in the EIP. Participants may purchase or redeem shares monthly at the unitized value of the pool at the time of purchase or redemption. Payout is allocated to participants based on the number of shares held.

All EIP assets are classified as noncurrent regardless of maturity due to the long-term nature of the intended use of gifts or affiliated entity funds invested in the pool.

The EIP is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors

The Investment Company is responsible for implementing investment policies approved by the Foundation's Board of Directors, investing the EIP in a mix of funds or accounts managed by third-party investment firms, and direct holdings of individual securities or assets. It may utilize

University of California San Francisco Foundation
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direct holdings of exchange traded funds, futures, options or swaps to create or alter market exposure within the total portfolio. All activity is conducted with the oversight of the Investment Company Board with administration by the Investment Company’s operations team.

Following are asset categories across which the EIP will be diversified, as well as ranges of exposure:

Asset Class	Long Term Target Range	Interim Target Range	Reference Index
Safety Assets, e.g., cash, bonds with de minimis credit risk, typically U.S. Treasuries	4-15%	5-10%	U.S. 1-3 Year Treasuries
Public Equity	20-40%	25-35%	MSCI All Country World Index
Diversifying Assets, e.g., absolute return strategies, long/short equity hedge strategies, real estate	15-35%	20-30%	HFRI Fund-Weighted Composite
Premium Return, e.g., private equity approaches: buyout, growth, venture capital, control-oriented distress	30-50%	35-45%	Cambridge Buyout Index (Vintage-Wtd)

The EIP is expected to be able to source liquidity from inside or outside the portfolio at a minimum of 10% of the EIP within one month, and 30% within one year. Liquidity sources include short- and medium-term sources within the portfolio, net inflows into the EIP and access to a line of credit. Obligations include annual payout, unfunded commitments and potential redemptions from EIP funds functioning as endowments.

The EIP may invest in funds that utilize differing forms of leverage, but the portfolio as a whole is to remain unlevered. Exceptions to this policy include:

- Line of credit – The Investment Company Board may approve a line of credit created to address temporary liquidity needs in an amount not to exceed 15% of assets.
- Special circumstances – In instances where the Investment Company may seek to adjust exposures in the portfolio in a way that exceeds available liquid assets, the Investment Company Board must approve in advance transactions designed to reduce the net exposure of the portfolio. These adjustments should be modestly-sized and infrequent.

Endowment spending guidelines. The Foundation’s Endowment Spending Guidelines provide for a long-term target spending rate of 4.75% of a 36-month rolling average unitized market value of the Foundation EIP. This includes a 0.4% (40 basis points) endowment cost recovery fee. The Guidelines provide for a floor and ceiling of 3.5% and 6%, respectively, of the

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ending market value on the last day of the year for which payout is being calculated. Payout is distributed to individual funds annually based on average units outstanding during the year.

Endowment Spending Guidelines are the purview of the Board of Directors, in consultation with UCSF, the Investment Company Board and the CIO. The Guidelines are subject to review each year, and consideration is given to factors such as stability of funds flows to operations and preservation of endowment principal, in addition to the Spending Guidelines formula.

CUSTODIAL INVESTMENT FUNDS - EXTERNAL POOL PARTICIPANTS

As a result of its affiliation with UCSF, UCSF Benioff Children's Hospital Foundation (BCH Oakland Foundation) entered into an agreement with the Foundation to manage the investment of their endowed and unrestricted funds in the Foundation's EIP. With the exception of their unrestricted funds invested in the EIP, BCH Oakland Foundation is charged the same fee as all other pool participants. The external portion of EIP net position includes \$315.2 million and \$316.4 million held for BCH Oakland Foundation at June 30, 2023 and 2022, respectively.

Due to participation in the EIP by an affiliated foundation, the pool is considered a governmental external investment pool. The external portion of the EIP is discretely presented in these financial statements as Custodial Investment Funds, and such investments are not owned or contributed to the Foundation.

Because a separate annual financial report of the EIP has not been and is not planned to be issued, additional required disclosures are provided throughout the Foundation's financial statements.

The EIP's Statement of Net Position and Statement of Operations and Changes in Net Position as of and for the periods ended June 30, 2023 and 2022 are as follows:

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<i>in thousands of dollars</i>	2023	2022
STATEMENTS OF NET POSITION - EIP		
Assets		
Cash and cash equivalents	\$ 28,090	\$ 83,581
Receivable for investments sold	21,991	19,853
Accrued investment income	1,496	2,865
Investments	2,796,159	2,614,491
Other assets	381	1,391
Total assets	2,848,117	2,722,181
Liabilities		
Other liabilities	129,267	102,055
Total liabilities	129,267	102,055
Net position as held for all pool participants		
Internal portion	2,383,876	2,283,743
External portion	334,974	336,383
Total net position	2,718,850	2,620,126
Total liabilities & net position	\$ 2,848,117	\$ 2,722,181

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION - EIP		
Increase in net position from operations		
Revenues: Investment income	\$ 13,827	\$ 16,197
Expenses: Investment management	(19,316)	(18,620)
Net investment income (expense)	(5,489)	(2,423)
Realized gain	45,178	117,090
Change in unrealized gain	66,376	(315,008)
Net realized & unrealized gain	111,554	(197,918)
Net increase in net position resulting from operations	106,065	(200,341)
Distributions to participants:		
Distributions paid and payable	(129,084)	(115,956)
Share transactions:		
Net share transactions	121,743	158,831
Total increase in net position	98,724	(157,466)
Net position:		
Beginning of year	2,620,126	2,777,592
End of year	\$ 2,718,850	\$ 2,620,126

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INVESTMENTS

Investments reflected in the Statements of Fiduciary Net Position at June 30, 2023 and 2022 in total and in the EIP are summarized as follows:

in thousands of dollars

	2023		2022	
	EIP	Total	EIP	Total
Investment type				
Equity securities				
Domestic	\$ 7,827	\$ 7,827	\$ 83,883	\$ 109,393
Equity securities	7,827	7,827	83,883	109,393
Fixed income securities				
U.S. Treasury bills, notes & bonds	172,835	379,675	55,613	104,229
U.S. government-backed securities	9,189	9,189	10,706	10,706
U.S. government-backed asset-backed		6,684		7,456
U.S. government guaranteed	182,024	395,548	66,319	122,391
Other U.S. dollar denominated				
Corporate bonds		20,736		24,765
U.S. agencies			982	982
U.S. agencies asset-backed	48,376	66,824	91,441	111,287
Corporate asset-backed securities		17,811		21,297
Other		702		
Other U.S. dollar denominated	48,376	106,073	92,423	158,331
Foreign currency denominated				
Supranational/foreign		934		923
Foreign currency denominated		934		923
Commingled funds				
Absolute return funds	719,183	719,183	662,066	662,066
Balanced funds		40,876		36,833
U.S. equity funds	420,481	420,481	324,508	324,508
Non-U.S. equity funds	246,422	246,422	227,720	227,720
Real estate/REIT	98,823	98,823	119,969	119,969
Commingled funds	1,484,909	1,525,785	1,334,263	1,371,096
Private equity	1,081,864	1,081,864	1,051,658	1,051,658
Real estate		10,000		13,415
Other investments		2,100		2,230
Total investments	2,805,000	3,130,131	2,628,546	2,829,437
Less: Investments held outside of EIP	8,841		14,055	
USCF Foundation investments	2,796,159	3,130,131	2,614,491	2,829,437
Less: Custodial investment funds - external pool participants	334,973	334,973	336,383	336,383
Less: Current portion		194,339		37,758
Noncurrent investments	2,461,186	2,600,819	2,278,108	2,455,296
Beneficiary interests in irrevocable split-interest agreements included in other noncurrent assets		3,016		2,928
Total noncurrent	\$ 2,461,186	\$ 2,603,835	\$ 2,278,108	\$ 2,458,224

Fair value measurements. 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

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sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

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 certain equity securities and commingled funds (exchange traded funds and mutual funds), certain exchange traded derivatives (warrants, rights, options, and futures) 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 fixed- or variable-income securities, commingled funds (institutional funds not listed in active markets), certain non-exchange traded derivatives (warrants, rights, options, futures, repurchase agreements, swaptions, and swaps), and other assets that are valued using market information.
- **Level 3.** Investments and other assets classified as Level 3 have significant unobservable inputs, because 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 judgment. Level 3 investments include private equity investments, real estate, and irrevocable split-interest agreements.
- **Net Asset Value (NAV).** Investments whose fair value is measured at NAV 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, venture capital and commingled funds.

The following tables summarize the Foundation's total investments, EIP investments and other assets, including Custodial Investment Funds held for external pool participants, reported at fair value within the fair value hierarchy or NAV at June 30, 2023 and 2022:

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in thousands of dollars

	2023 - All Investments				Total
	Quoted Prices	Other	Unobservable	Net Asset	
	in Active	Observable	Inputs	Value	
	Markets	Inputs	Inputs	(NAV)	
	(Level 1)	(Level 2)	(Level 3)	(NAV)	
Investment type					
Equity securities	\$ 7,827				\$ 7,827
Fixed or variable income securities:					
U.S. government guaranteed		\$ 395,548			395,548
Other U.S. dollar denominated		106,073			106,073
Foreign currency denominated		934			934
Commingled funds	40,876			\$ 1,484,909	1,525,785
Private equity			114,013	967,851	1,081,864
Real estate			10,000		10,000
Other investments			1,657	443	2,100
Total investments	48,703	502,555	125,670	2,453,203	3,130,131
Less: Custodial investment funds					334,973
UCSF Foundation investments					2,795,158
Beneficial interests in split-interest agreements included in other noncurrent assets			\$ 3,016		\$ 3,016

in thousands of dollars

	2022 - All Investments				Total
	Quoted Prices	Other	Unobservable	Net Asset	
	in Active	Observable	Inputs	Value	
	Markets	Inputs	Inputs	(NAV)	
	(Level 1)	(Level 2)	(Level 3)	(NAV)	
Investment type					
Equity securities	\$ 109,393				\$ 109,393
Fixed or variable income securities:					
U.S. government guaranteed		\$ 122,391			122,391
Other U.S. dollar denominated		158,331			158,331
Foreign currency denominated		923			923
Commingled funds	36,833		25,243	\$ 1,309,021	1,371,097
Private equity			\$ 144,425	907,232	1,051,657
Real estate			13,415		13,415
Other investments			1,617	613	2,230
Total investments	146,226	281,645	184,700	2,216,866	2,829,437
Beneficial interests in split-interest agreements included in other assets			2,928		2,928
Total investments	\$ 146,226	\$ 281,645	\$ 187,628	\$ 2,216,866	2,832,365
Less: Custodial investment funds					336,383
UCSF Foundation investments					\$ 2,495,982
Beneficial interests in split-interest agreements included in other noncurrent assets			\$ 2,928		\$ 2,928

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	2023 - Endowed Investment Pool Investments				
	Quoted Prices	Other		Net Asset Value	Total
	in Active	Observable	Unobservable		
	Markets	Inputs	Inputs		
(Level 1)	(Level 2)	(Level 3)	(NAV)		
Investment type					
Equity securities	\$ 7,827				\$ 7,827
Fixed or variable income securities:					
U.S. government guaranteed		\$ 182,024			182,024
Other U.S. dollar denominated		48,376			48,376
Commingled funds				\$ 1,484,909	1,484,909
Private equity			\$ 114,013	967,851	1,081,864
Total endowed investments	7,827	230,400	114,013	2,452,760	2,805,000
Less: Investments held outside of EIP			873	7,968	8,841
Total EIP investments	\$ 7,827	\$ 230,400	\$ 113,140	\$ 2,444,792	2,796,159
Less: Custodial investment funds					334,973
Total UCSF EIP investments					\$ 2,461,186

in thousands of dollars

	2022 - Endowed Investment Pool Investments				
	Quoted Prices	Other		Net Asset Value	Total
	in Active	Observable	Unobservable		
	Markets	Inputs	Inputs		
(Level 1)	(Level 2)	(Level 3)	(NAV)		
Investment type					
Equity securities	\$ 83,883				\$ 83,883
Fixed or variable income securities:					
U.S. government guaranteed		\$ 66,319			66,319
Other U.S. dollar denominated		\$ 92,423			92,423
Commingled funds			25,243	\$ 1,309,021	1,334,264
Private equity			\$ 144,425	907,232	1,051,657
Total endowed investments	83,883	158,742	169,668	2,216,253	2,628,546
Less: Investments held outside of EIP			500	13,555	14,055
Total EIP investments	\$ 83,883	\$ 158,742	\$ 169,168	\$ 2,202,698	2,614,491
Less: Custodial investment funds					336,383
Total UCSF EIP investments					\$ 2,278,108

Investment related commitments. The Foundation has contractual commitments to make additional investments in private equity and other privately structured investment vehicles reported at NAV. The following table presents significant terms of such agreements, including unfunded commitments, redemption frequency and redemption notice period, for the Foundation's alternative investments measured at NAV as of June 30, 2023:

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in thousands of dollars

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds				
Absolute return	\$ 437,103		Monthly, Quarterly, Semi-Annually, Annually	30 - 90 days
Absolute return	282,081	\$ 90,464	Not eligible for redemption	N/A
U.S. equity	336,834		Monthly, Quarterly, Semi-Annually, Annually	45 - 90 days
U.S. equity	96,854	1,341	Not eligible for redemption	N/A
Non-U.S. equity	216,773		Weekly, Monthly, Quarterly, Semi-Annually, Annually	6 - 365 days
Non-U.S. equity	16,442		Not eligible for redemption	N/A
Real estate/REIT	98,822	28,135	Not eligible for redemption	N/A
Private equity	968,724	371,693	Not eligible for redemption	N/A
Total investments measured at NAV	2,453,633	491,633		
Less: Investments held outside of EIP	8,841	-		
Total EIP investments measured at NAV	\$ 2,444,792	\$ 491,633		

In addition to the amounts shown above, the Foundation has additional commitments totaling \$35.5 million associated with investments for which no capital has been called by the manager as of June 30, 2023.

The EIP is a pooled investment fund. Investment balances shown above have not been reduced to reflect pooled interests of Custodial Investment Funds.

INVESTMENT RISK FACTORS

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk, can affect both equity and fixed income securities. Equity securities respond to such investment behavioral factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks 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 liquidity, 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 or no 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 (Moody's) or Standard and Poor's (S&P). 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 its yield should be to compensate for the additional risk.

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The primary purpose of the UIP is to invest funds to meet the spending needs of UCSF, and capital preservation and liquidity are the primary investment objectives of the UIP. The benchmark return for the unendowed portfolio, the Barclays 1-3 Year U.S. Treasury Index, reflects a return with minimal credit risk.

The primary purpose of the EIP fixed income asset class is to provide liquidity, generate income and maintain overall diversification. The benchmark return for the fixed income portion of the EIP is the Barclays 1-3 Year U.S. Treasury Index.

The credit risk profile for fixed income securities held at June 30, 2023 and 2022 is as follows:

in thousands of dollars

	2023		2022	
	EIP	Total	EIP	Total
U.S. government guaranteed	\$ 182,024	\$ 395,548	\$ 66,319	\$ 122,391
Other U.S. dollar denominated				
AAA	48,376	79,738	92,423	132,845
AA		409		1,523
A		5,216		9,459
BBB		13,974		5,883
BB		1,137		1,115
Not rated		5,599		7,506
Total other U.S. dollar denominated	48,376	106,073	92,423	158,331
Foreign currency denominated				
BBB		934		923
Total foreign currency denominated		934		923
Total fixed income securities	\$ 230,400	\$ 502,555	\$ 158,742	\$ 281,645

The EIP is a pooled investment fund. Investment balances shown above have not been reduced to reflect pooled interests of Custodial Investment Funds.

Custodial credit risk. Custodial credit risk is the risk that in the event of a failure of a custodian, the Foundation's investments may not be returned. Many of the Foundation's investments represent ownership interests that do not exist in physical or book-entry form. Others are issued, registered or held in the name of the Foundation by its master custodian bank, as agent for the Foundation. The Foundation considers custodial risk to be remote.

Concentration of credit risk. Concentration of credit risk is the risk 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. Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of cash equivalents, U.S. government and federal agency obligations, common stocks, and corporate debt securities. Federal agency obligations consist primarily of collateralized mortgage obligations, which are collateralized by diversified home mortgages. The remainder of the portfolio is diversified, and issuers are dispersed throughout many industries and geographies.

The Foundation's investment policy requires that the portfolio be adequately diversified to limit exposure to concentration of credit risk.

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Endowed portfolio investment policy requires approval of the Investment Company Board for position sizing over 5% of the total EIP.

Unendowed portfolio investment policy specifies that no more than 5% of total assets will be invested in the securities of a single issuer at the time of purchase, with the exception of securities issued or guaranteed by the U.S. government, its agencies, or GSE's or collateralized by such securities or loans.

At June 30, 2023 and 2022, no single issuer comprised more than 5% of the Foundation's EIP and total investment balances.

Interest rate risk. Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The 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. Effective duration is the approximate change in price of a security resulting from a 100-basis point (one percentage point) change in the level of interest rates. It is not a measure of time.

Portfolio guidelines limit the maximum weighted average effective duration of the UIP to not greater than 125% of the benchmark, and seven years is the maximum stated maturity or average life for an individual security at the time of purchase.

The duration of the fixed income portion of the EIP is to be maintained between three and six years.

The effective duration of the Foundation's fixed income securities at June 30, 2023 and 2022 follows. Information presented does not take into account the relative weighting of the portfolio components to the total portfolio.

	2023		2022	
	EIP	Total	EIP	Total
U.S. government				
U.S. Treasury bills, bonds & notes	1.35	0.81	2.19	1.60
U.S. government-backed	3.67	3.67	3.41	3.41
U.S. government-backed asset-backed securities		0.67		0.75
Other U.S. dollar denominated				
Corporate bonds		2.44		2.83
U.S. agencies			0.70	0.70
U.S. agencies asset-backed securities	2.92	3.17	2.91	3.22
Corporate asset-backed securities		0.97		1.00
Other		4.99		
Foreign currency denominated				
Government/sovereign		0.52		1.43

Fixed income investments include various mortgage-backed securities, collateralized mortgage obligations and callable bonds that may be considered highly sensitive to changes in interest rates due to the existence of prepayment or conversion features.

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- **Mortgage pass-through securities.** These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae), and Federal Home Loan Mortgage Association (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.
- **Corporate asset-backed securities.** Corporate asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates.
- **Collateralized mortgage obligations.** Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In rising interest rate environments, the opposite is true. The Foundation does not invest in principal-only or interest-only CMOs.
- **Callable Bonds.** Although bonds are issued with clearly defined maturities, an issuer may be able to redeem or call a bond earlier than its maturity date. The Foundation must then replace the called bond with a bond that may have a lower yield. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, 2023 and 2022, the fair values of such investments are as follows:

in thousands of dollars

	2023		2022	
	EIP	Total	EIP	Total
Investments highly sensitive to changes in interest rates				
Corporate asset-backed securities		\$ 17,811		\$ 21,297
Mortgage pass-through securities		17,561		20,567
Collateralized mortgage obligations	48,376	55,947	92,423	99,158
Total investments highly sensitive to changes in interest rates	\$ 48,376	\$ 91,319	\$ 92,423	\$ 141,022

The EIP is a pooled investment fund. Investment balances shown above have not been reduced to reflect pooled interests of Custodial Investment Funds.

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At June 30, 2023 and 2022, the effective durations for these securities are as follows:

	2023		2022	
	EIP	Total	EIP	Total
Effective duration of investments highly sensitive to changes in interest rates				
Corporate asset-backed securities		.97		1.00
Mortgage pass-through securities		3.88		4.82
Collateralized mortgage obligations	2.92	2.65	2.91	2.74

Foreign currency risk. The Foundation's asset allocation policy includes an allocation to non-U.S. equities. These investments may be hedged at the discretion of the Investment Manager. Foreign currency risk is an accepted risk of the investment strategy. Portfolio guidelines for fixed income securities also allow exposure to non-U.S. dollar denominated bonds. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the investment policies, such instruments are not permitted for speculative use or to create leverage.

At June 30, 2023 and 2022, the U.S. dollar balances organized by currency denominations and investment types are as follows:

in thousands of dollars

	2023		2022	
	EIP	Total	EIP	Total
Fixed Income Securities				
Mexican Peso		\$ 934		\$ 923
Total fixed income securities		934		923
Commingled Funds				
Various currency denominations				
Commingled - Non-U.S. equity	233,215	233,215	227,720	227,720
Commingled - Absolute return	263,358	263,358	256,955	256,955
Commingled - Real estate/REIT	3,563	3,563		
Total commingled funds	500,136	500,136	484,675	484,675
Private Equity	225,660	225,660	189,846	189,846
Total exposure to foreign currency risk	\$ 725,796	\$ 726,730	\$ 674,521	\$ 675,444

The EIP is a pooled investment fund. Investment balances shown above have not been reduced to reflect pooled interests of Custodial Investment Funds.

Alternative investment risks. Alternative investments include ownership interests in a wide variety of partnership and fund structures that may be domestic or offshore. Generally, there is little or no regulation of these investments by the Securities and Exchange Commission or U.S. state attorneys general. These investments employ a wide variety of strategies, including absolute return, hedge, venture capital, private equity and other strategies. Investments in this category may employ leverage to enhance the investment return. Underlying holdings can include financial assets, such as marketable securities, non-marketable securities, derivatives, and synthetic and structured instruments; real assets; tangible and intangible assets; and other

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funds and partnerships. Generally, these investments do not have a ready market. Interest in these investments may not be traded without approval of the general partner or fund management.

Alternative investments are subject to all of the risks previously described related to equities and fixed income instruments. In addition, alternative strategies and their underlying assets and rights are subject to a broad array of economic and market vagaries that can limit or erode value. The underlying assets may not be held by a custodian either because they cannot be or because the entity has chosen not to hold them in this form. Valuations determined by an investment manager who has a conflict of interest, in that they are compensated for performance, are considered and reviewed by Foundation and Investment Company management. Real assets may be subject to physical damage from a variety of means, such as loss from natural causes, theft of assets, lawsuits involving rights, and other loss and damage, including mortgage foreclosure risk. These risks may not be insured or insurable. Tangible assets are subject to loss from theft and other criminal actions and from natural causes. Intangible assets are subject to legal challenge and other possible impairment.

DERIVATIVE INVESTMENTS

Derivative securities are investments whose value is derived, in whole or in part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities or currencies. Derivatives cover a broad range of financial instruments, such as forwards, futures, options and swaps.

Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the Foundation is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the Foundation agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. These contracts are settled on a daily basis, with the resulting realized gain or loss included in the Consolidated Statements of Revenue, Expenses and Changes in Net Position. The settlement amount at the end of each day for each of the contracts, or variation margin, is included in investments and represents the fair value of the contracts.

The Foundation had no open derivative positions at June 30, 2023.

ENDOWMENT PAYOUT

For the years ended June 30, 2023 and 2022, endowment payout was allocated to Foundation donor-restricted endowment funds (internal pool) and custodial funds (external pool participants), as follows:

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in thousands of dollars

	2023		
	Custodial Funds	Foundation	Total
Net accumulated gains and corpus	\$ 15,820	\$ 103,364	\$ 119,184
Investment income, net			
Endowment payout	\$ 15,820	\$ 103,364	\$ 119,184

	2022		
	Custodial Funds	Foundation	Total
Net accumulated gains and corpus	\$ 14,456	\$ 92,618	\$ 107,074
Investment income, net			
Endowment payout	\$ 14,456	\$ 92,618	\$ 107,074

Endowment payout is shown net of endowment cost recovery fees of \$9.9 million and \$8.9 million for 2023 and 2022, respectively.

A portion of endowment payout may be reinvested if stipulated by agreement with the donor.

UNDERWATER ENDOWMENTS

As a result of market volatility, the market value of some permanent endowments can be less than their historical gift value. The underwater amount of such endowments was \$6.7 million and \$6.0 million at June 30, 2023 and 2022, respectively. Under UPMIFA, investment income and accumulated realized and unrealized gains may be expended in support of the operational requirements of UCSF programs.

LINE OF CREDIT

In fiscal year 2022, the Foundation and the Investment Company entered into a line of credit agreement issued by JPMorgan Chase Bank, N.A. to facilitate management of endowment cash flows, maturing December 8, 2022. On June 17, 2022, the commitment amount of the line of credit was increased from \$50.0 million to \$100.0 million. On November 16, 2022, the agreement was amended, and Advances under the line of credit will accrue interest at the Adjusted Secured Overnight Financing Rate (Adjusted SOFR) plus 65 basis points, or at the CB Floating Rate (CBFR)--the greater of the prime rate or 2.5%. An unused commitment fee is due each quarter calculated as 25 basis points per annum of the difference between the commitment and the balance outstanding during the period and paid in arrears on a quarterly basis. The amended commitment has a maturity date of November 15, 2023.

As of June 30, 2023, there are no balances outstanding against the line of credit.

PLEDGES RECEIVABLE

Pledges receivable at June 30, 2023 and 2022 consist of the following unconditional promises to give:

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<i>in thousands of dollars</i>	2023	2022
Pledges due in one year or less	\$ 106,314	\$ 44,325
Less: Allowance for uncollectible pledges	(1,657)	(1,038)
Pledges receivable, current	104,657	43,287
Pledges due between one and five years	659,511	146,701
Pledges due in more than five years	102,500	7,500
Pledges due in more than one year	762,011	154,201
Less		
Allowance for uncollectible pledges	(7,028)	(1,518)
Unamortized discount	(59,246)	(2,385)
Pledges receivable, noncurrent	695,737	150,298
Total pledges receivable	\$ 800,394	\$ 193,585

Pledges from two donors represent more than 10% of total pledges receivable at June 30, 2023 and June 30, 2022. They represent 92.8% and 90.1% in the aggregate of total pledges receivable at June 30, 2023 and 2022, respectively.

In addition to the pledge balances and revenue reflected in these financial statements, the Foundation has pledges that will be recognized as conditions and milestone events are met by UCSF, and non-binding intentions that donors may satisfy through other related entities. Endowment pledges are also not reflected in these financial statements, and endowment pledge payments are recognized as additions to endowments at the time the payments are received.

INDEMNIFICATIONS

In connection with certain investment dispositions, the Foundation has provided certain indemnifications to the acquirer. The Foundation continually assesses the probability of its obligations under these indemnifications and currently believes there are no obligations that are probable at this time.

SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events from the net position date through the financial statement issuance date and determined there are no items to disclose.

BLENDED COMPONENT UNITS

Condensed combining information for the Foundation's blended component units for the years ended June 30, 2023 and 2022 is as follows:

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COMBINING STATEMENT OF NET POSITION

2023				
	Foundation	Investment Company	Eliminations	Total
Assets				
Current assets	\$ 460,073	\$ 2,911		\$ 462,984
Noncurrent assets	3,329,898			3,329,898
Total assets	3,789,971	2,911		3,792,882
Liabilities				
Current liabilities	105,929	2,383		108,312
Noncurrent liabilities	45,522	13		45,535
Total liabilities	151,451	2,396		153,847
Deferred inflows of resources				
Deferred inflows from irrevokable split interest agreements	29,089			29,089
Total deferred inflows of resources	29,089			29,089
Net position				
Restricted - Nonexpendable	1,168,239			1,168,239
Restricted - Expendable	2,440,816	515		2,441,331
Unrestricted	376			376
Total net position	\$ 3,609,431	\$ 515		\$ 3,609,946

COMBINING STATEMENT OF OPERATIONS & CHANGES IN NET POSITION

2023				
	Foundation	Investment Company	Eliminations	Total
Operating income				
Operating revenues	\$ 999,404	\$ 6,510	\$ (6,510)	\$ 999,404
Operating expenses	(476,606)	(6,462)	6,510	(476,558)
Net operating income	522,798	48	-	522,846
Nonoperating income				
Nonoperating income	108,286	90		108,376
Net income before other changes in net assets	631,084	138		631,222
Other changes in net assets	38,463			38,463
Increase in net position	669,547	138		669,685
Net position				
Beginning of year	2,939,884	377		2,940,261
End of year	\$ 3,609,431	\$ 515		\$ 3,609,946

COMBINING STATEMENT OF CASH FLOWS

2023				
	Foundation	Investment Company	Eliminations	Total
Net cash provided by (used in) operating activities	\$ (172,037)	\$ (135)		\$ (172,172)
Net cash provided by noncapital financing activities	52,920			52,920
Net cash provided by (used in) investing activities	(134,192)	91		(134,101)
Net increase (decrease) in cash and cash equivalents	(253,309)	(44)		(253,353)
Cash and cash equivalents at beginning of the year	419,975	2,935		422,910
Cash and cash equivalents at end of the year	\$ 166,666	\$ 2,891		\$ 169,557

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COMBINING STATEMENT OF NET POSITION

2022				
	Foundation	Investment Company	Eliminations	Total
Assets				
Current assets	\$ 437,780	\$ 2,955		\$ 440,735
Noncurrent assets	2,696,709			2,696,709
Total assets	3,134,489	2,955		3,137,444
Liabilities				
Current liabilities	124,922	2,539		127,461
Noncurrent liabilities	39,510	40		39,550
Total liabilities	164,432	2,579		167,011
Deferred inflows of resources				
Deferred inflows from irrevokable split interest agreements	30,172			30,172
Total deferred inflows of resources	30,172			30,172
Net position				
Restricted - Nonexpendable	1,128,641			1,128,641
Restricted - Expendable	1,810,873	376		1,811,249
Unrestricted	371			371
Total net position	\$ 2,939,885	\$ 376		\$ 2,940,261

COMBINING STATEMENT OF OPERATIONS & CHANGES IN NET POSITION

2022				
	Foundation	Investment Company	Eliminations	Total
Operating income				
Operating revenues	\$ 513,607	\$ 6,645	\$ (6,645)	\$ 513,607
Operating expenses	(444,387)	(6,514)	6,645	(444,256)
Net operating income	69,220	131	-	69,351
Nonoperating income				
Nonoperating loss	(173,326)	8		(173,318)
Net income (loss) before other changes in net	(104,106)	139		(103,967)
Other changes in net assets	85,638			85,638
Increase in net position	(18,468)	139		(18,329)
Net position				
Beginning of year	2,958,352	238		2,958,590
End of year	\$ 2,939,884	\$ 377		\$ 2,940,261

COMBINING STATEMENT OF CASH FLOWS

2022				
	Foundation	Investment Company	Eliminations	Total
Net cash provided by (used in) operating activities	\$ (40,691)	\$ 562		\$ (40,129)
Net cash provided by noncapital financing activities	104,945			104,945
Net cash provided by investing activities	87,584	8		87,592
Net increase in cash and cash equivalents	151,838	570		152,408
Cash and cash equivalents at beginning of the year	268,137	2,365		270,502
Cash and cash equivalents at end of the year	\$ 419,975	\$ 2,935		\$ 422,910

