

**University of California  
San Francisco Foundation**  
Consolidated Financial Statements  
June 30, 2019 and 2018

**University of California San Francisco Foundation**  
**Index**  
**June 30, 2019 and 2018**

---



	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1–2
<b>Management’s Discussion and Analysis (Unaudited)</b> .....	3–12
<b>Financial Statements</b>	
Consolidated Statements of Net Position .....	13–14
Consolidated Statements of Revenues, Expenses and Changes in Net Position.....	15
Consolidated Statements of Cash Flows .....	16
Notes to Consolidated Financial Statements .....	17–39



## **Report of Independent Auditors**

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

We have audited the accompanying financial statements of the University of California, San Francisco Foundation, a component unit of the University of California, which comprise the statements of consolidated net position as of June 30, 2019 and 2018, and the related consolidated statements of revenues, expenses, and changes in net position and of cash flows for the years then ended.

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

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

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

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of California, San Francisco Foundation as of June 30, 2019 and 2018, and the respective changes in consolidated net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Other Matter***

The accompanying management's discussion and analysis on pages 3 through 12 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*PricewaterhouseCoopers LLP*

San Francisco, California  
September 17, 2019



# University of California San Francisco Foundation Management's Discussion and Analysis (Unaudited)

---

## **Management's Discussion and Analysis**

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, 2019, and includes selected comparative information for the years ended June 30, 2018 and 2017. 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 2019, 2018 and 2017 in this discussion refer to the fiscal years ended June 30.

## **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. 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 Governmental Accounting Standards Board (GASB) Statement No. 39, its financial statements are also separately presented in the University of California's system wide 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 (BCHO) are not included in the Foundation's financial statements.

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

## **Private Support Summary**

UCSF total private support for 2019 is \$622.8 million; comprised of over 52,000 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 67.0% of UCSF's private support in 2019 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 Medical Center, the Foundation also receives gifts from donors throughout the U.S. and worldwide.



# University of California San Francisco Foundation Management’s Discussion and Analysis (Unaudited)

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 Aid to Education (CAE), 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 20 of more than 800 participating institutions since 2014 and in the top 5 in three of those years.

*in millions of dollars*

Year	UCSF Private Support	VSE Ranking
2018	\$730.3	5
2017	\$422.2	17
2016	\$596.9	5
2015	\$608.6	4
2014	\$444.9	12

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 – 2019

- The Foundation’s net position is \$1,955.6 million as of June 30, 2019, an increase of \$105.1 million or 5.7% over June 30, 2018. The increase is due primarily to the following:
  - Investment results totaling \$80.9 million.
  - Contributions and additions to permanent endowments totaling \$364.7 million.
  - Distributions to UCSF and affiliated organizations in support of the University’s mission totaling \$337.2 million.
- Operating income, including spendable gifts, and additions to permanent endowments decreased 20.8% from 2018 to 2019. At \$460.3 million, 2018 was a record year for charitable giving for UCSF Foundation, however, 2019 results totaling \$364.7 million place it 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 2019, \$337.2 million was distributed to UCSF and affiliates, an increase of \$52.4 million from \$284.8 million distributed in 2018, and the highest year on record.
- Nonoperating income, comprised of net investment income and change in fair market value of Foundation investments, was \$80.9 million and \$198.8 million for 2019 and 2018, respectively. Net investment income decreased from \$28.9 million in 2018 to \$14.8 million in 2019, and the change in fair market value of investments was \$66.1 million and \$169.9 million for 2019 and 2018, respectively.



# University of California San Francisco Foundation Management's Discussion and Analysis (Unaudited)

---

## **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.

## **Consolidated Statements of Revenues, Expenses and Changes in Net Position**

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 since the Foundation's mandate is to make disbursements in support of UCSF's mission.

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

A summarized comparison of the operating results for 2019, 2018 and 2017 follows:

The Statements of 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 \$105.1 million for 2019 compared to increases of \$366.0 million and \$119.2 million in 2018 and 2017, respectively. Changes in net position are comprised of net operating income (loss), nonoperating income (loss) and additions to permanent endowments.

**University of California San Francisco Foundation  
Management's Discussion and Analysis (Unaudited)**

*in millions of dollars*

	2019	2018	Restated 2017
<b>Operating revenues &amp; expenses</b>			
Contributions (net of change in allowance)	\$ 250.8	\$ 356.0	\$ 155.6
Disbursements to UCSF and affiliates	(337.2)	(284.8)	(228.2)
Income tax - deferred	-	0.0	0.1
Income tax	2.2	(3.10)	-
Management and general expenses	(5.5)	(5.2)	(4.1)
Net operating income (loss)	(89.7)	62.9	(76.6)
<b>Nonoperating income</b>			
Net investment income	14.8	28.9	27.7
Net increase (decrease) in fair value of investments	66.1	169.9	126.6
Nonoperating income (loss)	80.9	198.8	154.3
Additions to permanent endowments	113.9	104.3	41.5
Increase (decrease) in net position	105.1	366.0	119.2
<b>Net position</b>			
Beginning of year, as previously reported	1,850.5	1,502.9	1,381.6
Cumulative effect of accounting change	-	(18.4)	(16.3)
Beginning of year, as restated	1,850.5	1,484.5	1,365.3
End of year	\$ 1,955.6	\$ 1,850.5	\$ 1,484.5

**Operating Revenues & Expenses**

Operating income (loss) is comprised 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 may not always occur in the same year and operating losses can occur when distributions in any particular year exceed revenue for that year. For 2019, the Foundation reported a net operating loss of \$89.7 million, compared to net operating income and loss of \$62.9 million and \$76.6 million in 2018 and 2017, respectively.

Contribution revenue, including gifts for current use and for quasi-endowments, decreased \$105.2 million from \$356.0 million in 2018 to \$250.8 million in 2019; this compares to an increase of \$200.4 million from 2017 to 2018. 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.

For 2019, significant gifts and pledges were recognized in support of the following:

- UCSF Helen Diller Family Comprehensive Cancer Center
- UCSF Precision Cancer Medicine Building
- Center for Vision Neuroscience at Mission Bay (construction)
- UCSF Benioff Children's Hospital Oakland
- Brain Tumor Research Center
- Benioff UCSF Homelessness & Housing Initiative
- UCSF Preterm Birth Initiative



## University of California San Francisco Foundation Management's Discussion and Analysis (Unaudited)

- UCSF Benioff Center for Microbiome Medicine
- UCSF Institute for Regenerative Medicine
- Therapeutic Device Design Lab (Psychiatry)
- Pancreas Cancer Center
- Goldberg-Benioff Program in Prostate Cancer Translational Biology
- Weill Institute for Neurosciences (operations and programs)

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

The tables below illustrate how distributions to UCSF and affiliates have increased year-over-year for 2019, 2018 and 2017 in total, and by type of use.

*in millions of dollars*

	2019	2018	2017
<b>CAPITAL PROJECTS</b>			
Mission Bay Block 33 Center for Vision Neuroscience Building	\$ 20.5	\$ 28.9	\$ -
Mission Bay Hospital Complex	15.5	-	11.7
Mission Bay Precision Medicine Cancer Building	11.2	15.9	-
Zuckerberg San Francisco General Academic and Research Building	1.7	-	-
Sandler Neurosciences Conference Center	1.7	-	-
2130 Third Street - Child, Teen & Family Center and Department of Psychiatry	-	1.0	-
Mission Bay Block 23A Weil Neurosciences Building	2.9	-	-
<b>Total to UCSF and affiliates for Capital Projects</b>	<b>53.5</b>	<b>45.8</b>	<b>11.7</b>
<b>OTHER NONCAPITAL PROJECTS</b>			
Research/Faculty Support	162.8	159.9	129.2
Medical Center/Teaching Hospital	23.3	4.9	15.8
Institutional support	63.5	46.2	42.3
Instruction	17.3	10.5	16.5
Other	16.8	17.5	12.7
<b>Total to UCSF and affiliates for Noncapital Projects</b>	<b>283.7</b>	<b>239.0</b>	<b>216.5</b>
<b>Total Distributions to UCSF and affiliates for Spending</b>	<b>\$ 337.2</b>	<b>\$ 284.8</b>	<b>\$ 228.2</b>

In addition to transfers from capital projects noted above, for 2019, significant amounts were transferred in support of the following:

- \$23.4 million – Infrastructure and operations assessments and endowment cost recovery
- \$20.7 million – Benioff UCSF Children's Hospital Oakland
- \$10.2 million – Cardiovascular Research Institute operating costs, programs, infrastructure and equipment, and cardiovascular health research
- \$9.3 million – UCSF Dolby Family Center for Mood Disorders
- \$9.0 million – UCSF: The Campaign chancellor priorities
- \$6.5 million – Transforming Research and Clinical Knowledge in Traumatic Brain Injury (TRACK TBI)
- \$6.2 million – Program For Breakthrough Biomedical Research (PBBR)

## University of California San Francisco Foundation Management's Discussion and Analysis (Unaudited)

---

- \$6.4 million – UCSF Bakar ImmunoX Initiative and Computational Health Sciences Institute support

Management and general expenses increased \$0.3 million from \$5.2 million in 2018 to \$5.5 million in 2019, and \$1.1 million from \$4.1 million in 2017 to \$5.2 million in 2018, primarily reflecting the consolidated costs of Investment Company operations. In addition, 2018 results reflect professional fees incurred in the sale of the Foundation's real estate limited partnership interests and BVSF Holdings.

### **Nonoperating Income**

Nonoperating income includes the results of all investment activities, and is the source for endowment payout and Foundation operating expenses. Nonoperating income shown in the Statements of Revenues, Expenses and Changes in Net Position excludes investment results allocated to external pool participants.

Net investment income consists of dividends, interest and other investment income offset by investment manager fees. Net investment income totaled \$14.8 million for 2019, a decrease of \$14.1 million from 2018, following an increase of \$1.2 million from \$27.7 million in 2017 to \$28.9 million in 2018. Prior year amounts reflect distributions from the real estate limited partnership gifted to the Foundation in 2015, and receipt of dividends from the Foundation's BVSF Holdings, Inc. subsidiary. These investments were sold in 2018.

Net increase (decrease) in fair value of investments, comprised of net realized gain (loss) and change in unrealized gain (loss), was \$66.1 million for 2019 compared to \$169.9 million for 2018 and \$126.6 million for 2017. Change in fair value reflects results for unendowed, endowed and trust investment activities.

For 2019, the Foundation's Endowed Investment Pool (EIP) return, including investment income and expense, and change in fair market value, is 4.5%. Strong global equity markets and notable contributions from Diversifying managers were the main sources of return. Premium Return investments had good returns, but the growing allocation was not yet a large contributor.

EIP return for 2018 was 9.6%. Returns were driven primarily by the equity portfolio and the rising stock market, but there was broad contribution from all asset classes other than cash/fixed income.

EIP return for 2017 was 13.7%, with EIP performance driven by the significant global equity allocation and strong stock selection from the underlying investment managers.

Endowment payout is drawn from the accumulated market value of the EIP, comprised of corpus, current year net investment income and accumulated income and gains. Payout for 2019 is \$73.5 million, compared to \$62.9 million and \$55.4 million for 2018 and 2017, respectively. These amounts are net of the Foundation's cost recovery fee and represent spendable funds available to campus departments and external pool participants for program support. Total payout increases each year as the Foundation's endowment grows, and payout for 2019 and 2018 reflects earnings on FFE's that were established with proceeds from the 2018 sale of the Foundation's real estate limited partnership interests.

### **Additions to Permanent Endowments**

The Foundation's endowment continues to grow year-over-year. For 2019, gifts to permanent endowments increased \$9.6 million from \$104.3 million in 2018 to \$113.9 million in 2019; additions to permanent endowments totaled \$41.5 million in 2017.

## University of California San Francisco Foundation Management's Discussion and Analysis (Unaudited)

Significant additions for 2019 are in support of the following:

- \$40.0 million – UCSF Helen Diller Family Comprehensive Cancer Center
- \$8.0 million – Benioff Professorships in Children's Health
- \$8.0 million – Bakar Computational Health Sciences Institute (faculty support)
- \$8.0 million – John Douglas French Endowed Professorships (Memory & Aging Center)
- \$5.0 million – William K. Bowes, Jr. Biomedical Investigator Program
- \$4.0 million – Bakar ImmunoX Initiative (research)
- \$2.5 million – Bakar ImmunoX Initiative (faculty support)

### Consolidated Statements of Net Position

The Foundation's Statement 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 2019, 2018 and 2017 are as follows:

*in millions of dollars*

	2019	Change	2018	Change	Restated 2017	Change
<b>Assets</b>						
Cash and cash equivalents	\$ 385.3	-2.9%	\$ 396.9	88.2%	\$ 210.9	38.8%
Investments	1,810.0	10.3%	1,641.3	8.7%	1,509.8	6.8%
Pledges	90.2	-34.8%	138.4	113.9%	64.7	-21.3%
Other assets	20.8	62.5%	12.8	-11.7%	14.5	173.6%
<b>Total assets</b>	<b>2,306.3</b>	<b>5.3%</b>	<b>2,189.4</b>	<b>21.6%</b>	<b>1,799.9</b>	<b>8.9%</b>
<b>Liabilities</b>						
Agency funds held for others	3.5	59.1%	2.2	4.8%	2.1	-4.5%
Funds held for external pool participants	260.7	3.5%	252.0	9.8%	229.5	15.9%
Obligations under life income arrangements	25.3	12.4%	22.5	8.2%	20.8	4.0%
Deferred tax liability	-	0.0%	-	-100.0%	0.6	0.0%
Other liabilities	29.8	-10.5%	33.3	-18.2%	40.7	-14.0%
<b>Total liabilities</b>	<b>319.3</b>	<b>3.0%</b>	<b>310.0</b>	<b>5.5%</b>	<b>293.7</b>	<b>9.5%</b>
<b>Deferred inflows of resources</b>						
Deferred inflows from irrevocable split interest agreements	31.4	8.7%	28.9	33.2%	21.7	11.9%
<b>Total deferred inflows</b>	<b>31.4</b>	<b>8.7%</b>	<b>28.9</b>	<b>33.2%</b>	<b>21.7</b>	<b>11.9%</b>
<b>Net position</b>						
Restricted						
Nonexpendable	836.0	16.1%	720.3	18.4%	608.2	9.0%
Expendable	1,119.2	-0.9%	1,129.8	29.0%	875.9	8.6%
Unrestricted	0.4	0.0%	0.4	0.0%	0.4	0.0%
<b>Total net position</b>	<b>\$ 1,955.6</b>	<b>5.7%</b>	<b>\$ 1,850.5</b>	<b>24.7%</b>	<b>\$ 1,484.5</b>	<b>8.7%</b>

## University of California San Francisco Foundation Management's Discussion and Analysis (Unaudited)

---

### Assets

Total assets for 2019 increased 5.3% or \$116.9 million to \$2,306.3 million from \$2,189.4 million at June 30, 2018; this compares to an increase of \$389.5 million or 21.6% from 2017 to 2018. 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 \$157.1 million from 2018 to 2019, compared to an increase of \$317.5 million from 2017 to 2018. Year-over-year changes in cash and investments are primarily the result of cash flows from contributions and other revenues, additions to permanent endowments, proceeds from the sale of donated securities and disbursements to UCSF, and nonoperating income. Cash and investment balances for all years include Benioff Children's Hospital Oakland's investment in the Foundation's endowed investment pool and consolidated Investment Company balances, and for years prior to 2018, the Foundation's investment in BVSF Holdings.

Pledge receivable balances of \$90.2 million as of June 30, 2019 decreased \$48.2 million from \$138.4 million in 2018. New pledges totaling \$43.0 million were offset by pledge payments and other changes of \$92.3 million; this net decrease was offset by a net decrease in the allowance for uncollectible pledges and discount on multi-year pledges of \$1.1 million.

Pledge receivable balances of \$138.4 million as of June 30, 2018 increased \$73.7 million from 2017. New pledges totaling \$137.8 million were offset by pledge payments and other changes of \$61.3 million; this net increase was offset by a net increase in the allowance for uncollectible pledges and discount on multi-year pledges of \$2.8 million.

Other assets increased \$8.0 million from \$12.8 million in 2018 to \$20.8 million in 2019, and decreased \$1.7 million from \$14.5 million in 2017 to \$12.8 million in 2018. Other assets include receivable for investments sold, investment income receivable, beneficial interests in irrevocable split-interest agreements administered by third parties and all other assets. Year-over-year changes are primarily due to changes in receivable for investments sold which comprises \$7.3 million of the increase in other assets from 2018 to 2019, and \$1.2 million of the decrease from 2017 to 2018. This is due to timing of cash settlements for trades executed just prior to fiscal year end.

Financial statement balances do not reflect conditional pledges that will be recognized when conditions and milestone events specified by donors are met, or non-binding intentions that donors may satisfy through other entities, such as donor advised funds or related foundations.

### Liabilities

Foundation liabilities increased \$9.9 million or 3.2% from \$310.0 million at June 30, 2018 to \$319.9 million at June 30, 2019, and increased \$16.3 million from 2017 to 2018. Year over year fluctuations generally result from changes in the value of funds held for external pool participants, payables to UCSF, payable for investments purchased and liabilities to beneficiaries under life income arrangements.

Funds held for external pool participants increased \$8.7 million and \$22.5 million from 2018 to 2019 and 2017 to 2018, respectively, primarily reflecting the increased market value attributable to external pool participants, and additions to the Foundation's endowed investment pool by external pool participants. Payables to UCSF increased \$6.9 million and decreased \$6.7 million from 2018 to 2019 and 2017 to 2018, respectively; such payables result from disbursements to UCSF made at year end that are not funded until the subsequent year. Year over year changes in payable for investment purchases and

## University of California San Francisco Foundation Management's Discussion and Analysis (Unaudited)

obligations under life income arrangements also contributed to the change for 2019. Agency funds held for others did not change significantly from 2018 to 2019.

### 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 change 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 105.1 million or 5.7% from 1,850.5 million in 2018 to \$1,955.6 million in 2019, and \$366.0 million or 24.6% from \$1,484.5 million in 2017 to \$1,850.5 million in 2018. Net assets are reported in three major categories—restricted nonexpendable, restricted expendable and unrestricted, as follows:

*in millions of dollars*

	2019	2018	Restated 2017
Restricted nonexpendable	\$ 836.0	\$ 720.3	\$ 608.2
Restricted expendable	1,119.2	1,129.8	875.9
Unrestricted	0.4	0.4	0.4
<b>Total net position</b>	<b>\$ 1,955.6</b>	<b>\$ 1,850.5</b>	<b>\$ 1,484.5</b>

Restricted nonexpendable net position includes the corpus of the Foundation's permanent endowments. At \$836.0 million, \$720.3 million and \$608.2 million, restricted nonexpendable net position comprises 42.7%, 38.9% and 41.0% of total net position for 2019, 2018 and 2017, respectively. Increases of \$115.7 million from 2018 to 2019 and \$112.1 million from 2017 to 2018 are primarily due to receipt of gifts intended for permanent endowments and also include reclassification of the underwater portion of permanent endowments with a market value that is 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 which may be expended, and endowment income and change in fair market value. At \$1,119.2 million, \$1,129.8 million and \$875.9 million, restricted expendable net position comprises 57.2%, 61.1% and 59.0% of total net position for 2019, 2018 and 2017, respectively. The decrease of \$10.6 million from 2018 to 2019 and increase of \$253.9 million from 2017 to 2018 is primarily due to receipt of current use gifts and gifts and other funds

## University of California San Francisco Foundation Management's Discussion and Analysis (Unaudited)

intended for quasi-endowments, and investment income, offset by distributions to UCSF and change in fair market value.

Restricted nonexpendable and expendable net position balances for 2017 have been restated, and the fair value of trust resources that are nonexpendable and expendable upon maturity reported as deferred inflows of resources under GASB 81.

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

### Consolidated Statements of Cash Flows

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 2019, 2018 and 2017 follows:

*in millions of dollars*

	2019	2018	2017 Restated
Net cash provided by (used in) operating activities	\$ (92.8)	\$ (81.7)	\$ (101.8)
Net cash provided by noncapital financing activities	114.8	105.7	55.9
Net cash provided by (used in) investing activities	(33.6)	162.0	104.8
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(11.6)</b>	<b>186.0</b>	<b>58.9</b>
Cash and cash equivalents at beginning of the year	396.9	210.9	152.0
<b>Cash and cash equivalents at end of the year</b>	<b>\$ 385.3</b>	<b>\$ 396.9</b>	<b>\$ 210.9</b>

Cash provided by (used in) operating activities ranged between (\$81.7) million and (\$101.8) million over the last three years. These reflect cash flows associated with the fundamental mission of the Foundation and consist primarily of contribution revenue and disbursements to UCSF.

Cash flows relating to additions to permanent endowments, agency funds held for others and external pool participant activities are reported as noncapital financing activities; cash flows associated with these activities have ranged between \$55.9 million and \$114.8 million over the last three years.

The year-to-year changes in net cash used in investing activities is largely the result of the routine timing of investment purchases, including investment of cash gifts and pledge payments, and sales of investments, including sales that may be required to generate cash required to fund distributions to UCSF, and, 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. At the same time, unpredictable changes in the economy and financial markets will likely continue to affect private support and investment results in the future, the impact of which is not determinable at this time.

**University of California San Francisco Foundation**  
**Consolidated Statements of Net Position**  
**June 30, 2019 and 2018**

<i>in thousands of dollars</i>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 164,863	\$ 165,374
Short-term investments	22,401	15,526
Receivable for investments sold	15,152	7,852
Accrued investment income	647	705
Pledges receivable, net	35,838	53,208
Other assets	36	93
<b>Current assets</b>	<b>238,937</b>	<b>242,758</b>
Noncurrent assets		
Investments, excluding endowments and trusts	107,292	132,206
Cash and cash equivalents, endowments	220,479	231,484
Cash and cash equivalents, trusts	-	11
Investments, endowments	1,627,282	1,445,148
Investments, trusts	53,011	48,408
Accrued investment income, endowments	480	369
Pledges receivable, net	54,328	85,170
Deferred tax assets	-	-
Other assets	4,455	3,799
<b>Noncurrent assets</b>	<b>2,067,327</b>	<b>1,946,595</b>
<b>Total assets</b>	<b>\$ 2,306,264</b>	<b>\$ 2,189,353</b>
<b>LIABILITIES</b>		
Current liabilities		
Payable for investments purchased	\$ 419	\$ 8,779
Agency funds held for others	3,469	2,154
Annuities payable	750	778
Liabilities to life beneficiaries	1,726	1,939
Other liabilities	28,913	24,127
<b>Current liabilities</b>	<b>35,277</b>	<b>37,777</b>
Noncurrent liabilities		
Funds held for external pool participants	260,721	252,033
Annuities payable	6,289	5,984
Liabilities to life beneficiaries	16,513	13,764
Other liabilities	486	403
<b>Noncurrent liabilities</b>	<b>284,009</b>	<b>272,184</b>
<b>Total liabilities</b>	<b>\$ 319,286</b>	<b>\$ 309,961</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows from irrevocable split interest agreements	\$ 31,377	\$ 28,898
<b>Total deferred inflow of resources</b>	<b>\$ 31,377</b>	<b>\$ 28,898</b>

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





**University of California San Francisco Foundation**  
**Consolidated Statements of Net Position (Continued)**  
**June 30, 2019 and 2018**

<i>in thousands of dollars</i>	<b>2019</b>	<b>2018</b>
<b>NET POSITION</b>		
Restricted		
Nonexpendable		
Endowment corpus	\$ 836,001	\$ 720,293
<b>Total nonexpendable</b>	<b>836,001</b>	<b>720,293</b>
Expendable		
Endowment income and net appreciation	181,583	179,000
Quasi-endowments	584,507	533,506
Trusts-annuity and life income funds	-	11
Contributions	353,111	417,280
<b>Total expendable</b>	<b>1,119,201</b>	<b>1,129,797</b>
<b>Total restricted</b>	<b>1,955,202</b>	<b>1,850,090</b>
Unrestricted	399	404
<b>Total net position</b>	<b>\$ 1,955,601</b>	<b>\$ 1,850,494</b>

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





**University of California San Francisco Foundation**  
**Consolidated Statements of Revenues, Expenses & Changes in Net Position**  
**Years Ended June 30, 2019 and 2018**

<i>in thousands of dollars</i>	<b>2019</b>	<b>2018</b>
<b>OPERATING REVENUES</b>		
Contributions (net of decrease in allowance of \$587 and increase of \$852 in 2019 and 2018, respectively)	\$ 250,828	\$ 356,039
<b>Total operating revenues</b>	<b>250,828</b>	<b>356,039</b>
<b>OPERATING EXPENSES</b>		
Disbursements to UCSF and affiliates	337,159	284,776
Income tax	(2,196)	3,075
Management and general expenses	5,531	5,283
<b>Total operating expenses</b>	<b>340,494</b>	<b>293,134</b>
<b>Net operating income (loss)</b>	<b>(89,666)</b>	<b>62,905</b>
<b>NONOPERATING INCOME</b>		
Investment income, net of investment expense	14,805	28,866
Net increase in fair value of investments	66,086	169,892
<b>Total nonoperating income</b>	<b>80,891</b>	<b>198,758</b>
<b>Net income (loss) before other changes in net assets</b>	<b>(8,775)</b>	<b>261,663</b>
<b>OTHER CHANGES IN NET POSITION</b>		
Additions to permanent endowments	113,882	104,342
<b>Increase in net position</b>	<b>105,107</b>	<b>366,005</b>
<b>NET POSITION</b>		
Beginning of year, as previously reported	1,850,494	1,502,860
Cumulative effect of accounting change	-	(18,371)
Beginning of year, as restated	1,850,494	1,484,489
End of year	\$ 1,955,601	\$ 1,850,494

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



**University of California San Francisco Foundation**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

<i>in thousands of dollars</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Contributions	\$ 238,884	\$ 209,737
Disbursements to UCSF and affiliates	(330,725)	(291,478)
Payments to beneficiaries	(2,491)	(2,381)
Payments for administrative or operating expenses	(6,332)	(5,029)
Other receipts	7,819	7,498
Net cash (used in) operating activities	(92,845)	(81,653)
<b>Cash flows from noncapital financing activities</b>		
Agency fund and external pool participant receipts	10,139	22,680
Contributions for permanent endowment purposes	103,109	83,018
Other receipts (payments)	1,592	(33)
Net cash provided by noncapital financing activities	114,840	105,665
<b>Cash flows from investing activities</b>		
Proceeds from sale of donated securities	66,190	92,798
Proceeds from sales and maturities of investments	290,090	572,082
Purchases of investments	(404,304)	(531,954)
Investment income, net of investment expense	14,502	29,071
Net cash provided by (used in) investing activities	(33,522)	161,997
Net increase in cash and cash equivalents	(11,527)	186,009
<b>Cash and cash equivalents</b>		
Beginning of the year	396,869	210,860
End of the year	\$ 385,342	\$ 396,869
<b>Reconciliation of net operating income (loss) to net cash used in operating activities</b>		
Net operating income (loss)	\$ (89,666)	\$ 62,905
<b>Adjustments to reconcile net operating income (loss) to net cash used in operating activities</b>		
Receipt of donated securities, excluding permanent endowment	(60,077)	(71,660)
Change in allowance for uncollectible pledges	(587)	852
Change in unamortized discount on pledges	(552)	1,907
Changes in assets and liabilities		
Pledges receivable	49,352	(76,404)
Annuities payable and liabilities to life beneficiaries	3,076	3,038
Deferred inflows	2,171	1,082
Other assets and liabilities, net	3,438	(3,373)
Net cash (used in) provided by operating activities	\$ (92,845)	\$ (81,653)
<b>Supplemental noncash activities</b>		
Operating activities - Contributions	\$ 59,754	\$ 71,660
Noncapital financing - Additions to permanent endowments	10,773	21,324
Beneficial interest in irrevocable split interest agreements	323	12
Net noncash activities	\$ 70,850	\$ 92,996

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

# University of California San Francisco Foundation

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018

---

#### 1. Organization

The University of California San Francisco Foundation (the “Foundation”) was incorporated on May 25, 1982 for the purpose of encouraging private giving to the University of California San Francisco (“UCSF”). The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the “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. Expenditures of the Foundation are generally limited to disbursements in support of the Regents of the University of California (the “University”) and normal administrative costs. 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.

#### **UCSF Foundation Investment Company**

In 2015, the Foundation’s Board of Overseers formed the UCSF Foundation Investment Company (Investment Company), a nonprofit organization, to manage UCSF Foundation’s endowed investment pool. The Investment Company formally commenced operations in 2016. The Investment Company is led by the Chief Investment Officer (CIO), and is governed by a Board of Directors (the “Investment Company Board”) with extensive knowledge of the asset management industry, 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.

#### 2. Summary of Significant Accounting Policies

##### **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 Governmental Accounting Standards Board (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.

##### **New Accounting Pronouncements**

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

##### **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). The STIP pool has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

---

penalty. Balances include amounts held for endowment purposes that are classified as noncurrent cash and cash equivalents.

At June 30, 2019 and 2018, the carrying amount of the Foundation's cash and cash equivalents was \$385.3 million and \$396.9 million, respectively, compared to bank balances of \$377.0 million and \$395.7 million, respectively. Deposits in transit and cash awaiting investment are the primary differences between the carrying amount and bank balances. Included in bank balances are deposits in the Regents STIP of \$323.7 million and \$355.1 million at June 30, 2019 and 2018, 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 \$1.2 million are covered by the FDIC Standard Maximum Deposit Insurance as of June 30, 2019.

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 and indirect investments in real estate are stated at a fair value as established by independent appraisals. Indirect investments in real estate are valued using the adjusted-net-asset method with discounts for lack of control and lack of marketability incorporated into the determination of fair value.

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

---

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.

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 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.

**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 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, 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, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments and other assets are based upon the best information in the circumstance and may require significant management

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

---

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 included hedge funds, private equity investments, and commingled funds.

**Endowments**

Endowments are invested in a unitized pool. Transactions within each individual endowment in the pool are based on the unit market value at the beginning of the month during which the transaction takes place.

Endowment Pool assets are managed on a total return basis, and the primary objective of the Pool 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 Endowment Pool, 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.

Beginning in 2016, Foundation Endowment Spending Policy provides for a long-term target spending rate of 4.75% of a 36-month rolling average unitized market value of Foundation EIP. This includes a 0.4% (40 basis points) fee to recover endowment administration costs. The Guidelines provide for a floor and ceiling of 3.5% and 6%, respectively, of the 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 Policy is the purview of the Board of Overseers, in consultation with the University, the Investment Company Board and the CIO. Spending Policy is 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 Guideline formula.

**Trusts**

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,

Trusts also include the Foundation’s beneficial interests in irrevocable split-interest agreements administered by third parties. The value of the Foundation’s beneficial interest is recognized as

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

---

deferred inflow of resources in the period in which the Foundation is notified that it is a beneficiary of such an arrangement.

**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 as 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 and beneficial interests in irrevocable split-interest agreements administered by third parties.

**Agency Funds Held For Others**

Agency funds held in trust represent funds held by the Foundation under an agency relationship with various support groups of UCSF or are funds held on behalf of the UCSF campus. 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.

**Funds Held For External Pool Participants**

Funds held in trust for pool participants represent the external portion of the Foundation's governmental external investment pool more fully described under Investments. The assets associated with this liability are included in Investments-Endowments, Cash and other similar asset accounts.



**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

---

**Annuities payable and liabilities to life beneficiaries**

The Foundation is a trustee and a remainderman under irrevocable split interest agreements requiring benefit 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 and life payable to beneficiaries are valued using the 2012 IAR mortality table, taking into consideration 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.

**Deferred inflows of resources**

The Statement of Net Position reports 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 will not be 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.

**Income Taxes**

The Foundation is recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code ("IRC") 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 IRC on net income derived from an unrelated trade or business ("UBIT").

**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 principal in accordance with donors' wishes. The Foundation classifies the original endowment gift and any amounts added to principal per the donor's wishes, as restricted nonexpendable net position.

- ***Restricted Expendable Net Position***

Restricted-expendable net position relate to 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**

The Foundation considers assets to be current that can reasonably be expected, as part of normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the Statements of Net Position date. Liabilities that can reasonably be



# University of California San Francisco Foundation

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018

---

expected, as part of normal business operations, to be liquidated within 12 months of the statement of net position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

#### **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 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.

### **3. University of California**

The Foundation is subject to the policies and procedures of the University and was established for the benefit of UCSF. The University establishes administrative guidelines for the Foundation, with regard to the Foundation's ability to conduct operations, through its policy on campus foundations. The University policy limits the ability of the Foundation to make certain expenditures and provides a general framework over its operations. The Foundation was established solely to support the mission of the University and UCSF and, accordingly, is considered a governmental not-for-profit organization subject to reporting under the GASB.

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. Expenses related to investment management, insurance, legal, and other professional services are paid for by the Foundation.

All contributions to the Foundation ultimately benefit UCSF. For the years ended June 30, 2019 and 2018, disbursements to the University and affiliated organizations were \$337.2 million and \$284.8 million, respectively, from restricted expendable net position. The accompanying financial statements reflect only contributions made to the Foundation; contributions made to UCSF are reflected in the financial statements of the University.

### **4. Investment Oversight**

As the Foundation's governing board, the Board of Overseers retains ultimate fiduciary responsibility and authority for all matters related to investment of Foundation assets. Pursuant to

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

---

the University's policies on campus foundations, the Foundation's Board of Overseers 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 Overseers. Investments managed by the Investment Company are associated with the Unendowed Investment Pool (UIP) and Endowed Investment Pool (EIP).

The Foundation's Board of Overseers 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 Overseers, while more mechanical 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 Regents 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 non-current regardless of maturity due to the long term nature of the intended use of gifts or affiliated entity funds invested in the pool.

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

The Investment Company is responsible for implementing investment policies approved by the Foundation's Board of Overseers, 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 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 Foundation's operations team.

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

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

<b>Asset Class</b>	<b>Long Term Target Range</b>	<b>Interim Target Range</b>	<b>Reference Index</b>
Safety Assets, e.g., cash, bonds with de minimis credit risk, typically US Treasuries	0-25%	10-20%	US 1-3 Year Treasuries
Public Equity	20-60%	30-35%	MSCI All Country World Index
Diversifying Assets, e.g., absolute return strategies, long/short equity hedge strategies, real estate	10-40%	30-35%	HFRI Fund-Weighted Composite
Premium Return, e.g., private equity approaches: buyout, growth, venture capital, control-oriented distress	5-40%	14-20%	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 20% within one year. Liquidity sources include net inflows into the EIP and access to a line of credit, and obligations include annual payout, unfunded commitments and potential EIP FFE redemptions.

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. This should be exceedingly rare.

**External Pool Participants**

As a result of its affiliation with UCSF, BCHO 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 unrestricted, non-endowed investments, BCHO Foundation is charged the same fee as all other pool participants.

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 presented in these financial statements as Funds Held For External Pool Participants. Such investments are not owned or contributed to the Foundation.

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

Since 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, 2019 and 2018 is as follows:

<i>in thousands of dollars</i>	<b>2019</b>	<b>2018</b>
<b>STATEMENT OF NET POSITION - EIP</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 220,479	\$ 231,484
Receivable for investments sold	6,107	7,851
Accrued investment income	480	368
Investments	1,613,252	1,433,956
Other Assets	11	11
<b>Total assets</b>	<b>1,840,329</b>	<b>1,673,670</b>
<b>Liabilities</b>		
Payable for investments purchased	20	8,779
Other liabilities	103	421
<b>Total liabilities</b>	<b>123</b>	<b>9,200</b>
<b>Net position as held for all pool participants</b>		
Internal Portion	1,579,485	1,412,437
External Portion	260,721	252,033
<b>Total net position</b>	<b>1,840,206</b>	<b>1,664,470</b>
<b>Total liabilities &amp; net position</b>	<b>\$ 1,840,329</b>	<b>\$ 1,673,670</b>
<b>STATEMENT OF OPERATIONS &amp; CHANGES IN NET POSITION-EIP</b>		
<b>Increase in net position from operations</b>		
Revenues: Investment Income	\$ 14,810	\$ 11,490
Expenses: Investment Management	(9,615)	(9,321)
<b>Net investment income</b>	<b>5,195</b>	<b>2,169</b>
Realized gain (loss)	7,348	81,420
Change in unrealized gain (loss)	62,702	46,145
<b>Net realized &amp; unrealized gain (loss)</b>	<b>70,050</b>	<b>127,565</b>
<b>Net increase in net position resulting from operations</b>	<b>75,245</b>	<b>129,734</b>
Distributions to participants:		
Distributions paid and payable	(79,548)	(67,959)
Share transactions:		
Net share transactions	180,039	296,429
<b>Total increase in net position</b>	<b>175,736</b>	<b>358,204</b>
<b>Net position:</b>		
<b>Beginning of year</b>	<b>1,664,470</b>	<b>1,306,266</b>
<b>End of year</b>	<b>\$ 1,840,206</b>	<b>\$ 1,664,470</b>



**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

The external portion of EIP net position includes \$243.2 million and \$234.4 million held for BCHO Foundation at June 30, 2019 and 2018, respectively.

Investments reflected in the consolidated Statements of Net Position at June 30, 2019 and 2018 in total and in the EIP are summarized as follows:

*in thousands of dollars*

	2019		2018	
	EIP	Total	EIP	Total
<b>Investment type</b>				
Equity securities				
Domestic	\$ 61,998	\$ 61,998	\$ 80,875	\$ 80,875
Foreign	1,982	1,982	5,679	5,679
Equity securities	63,980	63,980	86,554	86,554
Fixed income securities				
U.S. Treasury bills, notes & bonds	150,155	198,792	143,967	195,215
U.S. government- backed securities	-	-	-	15
U.S. government-backed, asset backed	-	9,556	-	9,989
U.S. government guaranteed	150,155	208,348	143,967	205,219
Other U.S. dollar denominated				
Corporate bonds	-	25,838	-	28,768
U.S. agencies, asset backed	-	14,561	-	24,105
Corporate - asset-backed securities	-	22,093	-	26,188
Other U.S. dollar denominated	-	62,492	-	79,061
Foreign currency denominated				
Government/Sovereign	-	1,430	-	1,442
Foreign currency denominated	-	1,430	-	1,442
Commingled funds				
Absolute return funds	458,144	458,144	431,276	431,276
Balanced funds	-	39,528	-	34,859
U.S. equity funds	300,265	300,265	238,417	238,417
Non-U.S. equity funds	287,990	287,990	307,771	307,771
Real estate/REIT	48,229	48,229	33,214	33,214
Commingled funds	1,094,628	1,134,156	1,010,678	1,045,537
Private equity	318,519	318,519	203,949	203,949
Real estate	-	13,483	-	13,549
Other investments	-	7,578	-	5,977
Total investments	1,627,282	1,809,986	1,445,148	1,641,288
Less: Investments held outside of EIP	14,030	N/A	11,192	N/A
Less: Current portion	-	22,401	-	15,526
Noncurrent investments	1,613,252	1,787,585	1,433,956	1,625,762
Beneficiary interests in irrevocable split-interest agreements included in other assets	-	4,048	-	3,358
Total noncurrent	\$ 1,613,252	\$ 1,791,633	\$ 1,433,956	\$ 1,629,120



**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

The following tables summarize the Foundation's total investments, EIP investments and other assets reported at fair value within the fair value hierarchy or NAV as of June 30, 2019 and 2018:

*in thousands of dollars*

Investment type	2019 - All Investments				
	Quoted Prices in	Other	Unobservable	Net Asset Value	Total
	Active Markets	Observable	Inputs		
	(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	\$ 63,980			\$	63,980
Fixed or variable income securities:					
U.S. government guaranteed		208,348			208,348
Corporate bonds		25,838			25,838
Asset backed securities		36,654			36,654
Supranational/foreign		1,430			1,430
Commingled funds:					
Absolute return				458,144	458,144
U.S. equity				300,265	300,265
Non-U.S. equity	-			287,990	287,990
Private equity			10,110	308,409	318,519
Real estate/REIT				48,229	48,229
Balanced	39,528				39,528
Real estate			13,483		13,483
Other investments	4,667		2,911		7,578
Total investments	108,175	272,270	26,504	1,403,037	1,809,986
Beneficial interests in split-interest agreements included in other assets	-	-	4,048	-	4,048
Total	\$ 108,175	\$ 272,270	\$ 30,552	\$ 1,403,037	\$ 1,814,034

*in thousands of dollars*

Investment type	2018 - All Investments				
	Quoted Prices in	Other	Unobservable	Net Asset Value	Total
	Active Markets	Observable	Inputs		
	(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	\$ 86,554			\$	86,554
Fixed or variable income securities:					
U.S. government guaranteed		205,219			205,219
Corporate bonds		28,768			28,768
Asset backed securities		50,293			50,293
Supranational/foreign		1,442			1,442
Commingled funds:					
Absolute return				431,276	431,276
U.S. equity				238,417	238,417
Non-U.S. equity				307,771	307,771
Private equity			616	203,333	203,949
Real estate/REIT				33,214	33,214
Balanced	34,859				34,859
Real estate			13,549		13,549
Other investments	178		5,799		5,977
Total investments	121,591	285,722	19,964	1,214,011	1,641,288
Beneficial interests in split-interest agreements included in other assets	-	-	3,358	-	3,358
Total investments	\$ 121,591	\$ 285,722	\$ 23,322	\$ 1,214,011	\$ 1,644,646

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

*in thousands of dollars*

Investment type	2019 - Endowed Investment Pool Investments				
	Quoted Prices in	Other	Unobservable	Net Asset Value	Total
	Active Markets	Observable	Inputs	(NAV)	
	(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	\$ 63,980				\$ 63,980
Fixed or variable income securities:					
U.S. government guaranteed		150,155			150,155
Commingled funds:					
Absolute return				458,144	458,144
U.S. equity	-			300,265	300,265
Non-U.S. equity	-			287,990	287,990
Private equity			9,356	295,133	304,489
Real estate/REIT				48,229	48,229
Total investments	\$ 63,980	\$ 150,155	\$ 9,356	\$ 1,389,761	\$ 1,613,252

*in thousands of dollars*

Investment type	2018 - Endowed Investment Pool Investments				
	Quoted Prices in	Other	Unobservable	Net Asset Value	Total
	Active Markets	Observable	Inputs	(NAV)	
	(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	\$ 86,554				\$ 86,554
Fixed or variable income securities:					
U.S. government guaranteed		143,967			143,967
Commingled funds:					
Absolute return				431,276	431,276
U.S. equity				238,417	238,417
Non-U.S. equity				307,771	307,771
Private equity				192,757	192,757
Real estate/REIT				33,214	33,214
Total investments	\$ 86,554	\$ 143,967	\$ -	\$ 1,203,435	\$ 1,433,956

**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, 2019:



**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

*in thousands of dollars*

<b>Investment Type</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Commingled funds				
Absolute return	\$ 368,549	\$ -	Monthly, Quarterly, Semi-Annually, Annually	30 - 90 days
Absolute return	89,595	75,585	Not eligible for redemption	n/a
U.S. equity	236,192	-	Daily, Quarterly, Semi-Annually, Annually	1 - 90 days
Non-U.S. equity	352,063	8,000	Daily, Weekly, Monthly, Quarterly, Semi-Annually, Annually	1 - 365 days
Private equity	308,409	284,808	Not eligible for redemption	n/a
Real estate/REIT	48,229	63,239	Not eligible for redemption	n/a
<b>Total investments measured at NAV</b>	<b>\$ 1,403,037</b>	<b>\$ 431,632</b>		

In addition to the amounts shown, the Foundation has additional commitments totaling \$155.0 million associated with investments where no capital has been called by the manager as of June 30, 2019.

**5. 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 may 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.



**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

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 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 for the fixed income portion of the EIP is the U.S. 1-3 Year Treasury Index.

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

*in thousands of dollars*

	2019		2018	
	EIP	Total	EIP	Total
U.S. government guaranteed	\$ 150,155	\$ 208,348	\$ 143,967	\$ 205,219
Other U.S. dollar denominated				
AAA	-	11,762	-	16,298
AA	-	15,708	-	24,739
A	-	6,185	-	6,774
BBB	-	18,514	-	21,360
BB	-	-	-	-
B	-	-	-	-
Not rated	-	10,323	-	9,890
Total other U.S. dollar denominated	-	62,492	-	79,061
Foreign currency denominated				
BBB	-	1,430	-	1,442
Total foreign currency denominated	-	1,430	-	1,442
Total fixed income securities	\$ 150,155	\$ 272,270	\$ 143,967	\$ 285,722

**Custodial Credit Risk**

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

Substantially all of the Foundation's investments are issued, registered or held in the name of the Foundation by its master custodian bank, as agent for the Foundation. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial risk is considered 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 concentrations 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.

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

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

Endowed portfolio investment policy for fixed income holdings requires that no more than 5% at market of the portfolio may be held in the securities of a single corporate issuer. Equity holdings are to be diversified according to economic sector, industry, number of holdings and other investment characteristics, with no more than 10% at purchase or 20% at market in any one issuer.

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, 2019 and 2018, 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, 2019 and 2018 follows. Information presented does not take into account the relative weighting of the portfolio components to the total portfolio.

	2019		2018	
	EIP	Total	EIP	Total
U.S. government				
U.S. Treasury notes	2.37	2.26	2.44	2.25
U.S. government backed securities	-	-	-	1.39
U.S. government - backed asset-backed securities	-	0.69	-	0.52
Other U.S. dollar denominated				
Corporate bonds	-	2.54	-	2.70
U.S. agencies - asset-backed securities	-	1.63	-	2.44
Corporate - asset-backed securities	-	0.75	-	1.12
Other	-	-	-	4.18
Foreign currency denominated				
Government/Sovereign	-	3.38	-	-

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

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

**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 (CMO's) 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 CMO's.

**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, 2019 and 2018, the fair values of such investments are as follows:

*in thousands of dollars*

	2019		2018	
	EIP	Total	EIP	Total
<b>Investments Highly Sensitive to Changes in Interest Rates</b>				
Corporate asset-backed securities	\$ -	\$ 22,093	\$ -	\$ 26,188
Mortgage pass-through securities	-	13,459	-	22,960
Collateralized mortgage obligations	-	10,658	-	11,134
Callable bonds	-	476	-	-
<b>Total Investments Highly Sensitive to Changes in Interest Rates</b>	<b>\$ -</b>	<b>\$ 46,686</b>	<b>\$ -</b>	<b>\$ 60,282</b>

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

At June 30, 2019 and 2018, the effective durations for these securities are as follows:

	2019		2018	
	EIP	Total	EIP	Total
<b>Effective Duration of Investments Highly Sensitive to Changes in Interest Rates</b>				
Corporate asset-backed securities	-	.75	-	1.12
Mortgage pass-through securities	-	1.57	-	2.43
Collateralized mortgage obligations	-	0.82	-	0.66
Callable bonds	-	2.64	-	-

**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, 2019 and 2018, the U.S. dollar balances organized by currency denominations and investment type are as follows:

*in thousands of dollars*

	2019		2018	
	EIP	Total	EIP	Total
<b>Equity Securities</b>				
Canadian Dollar	\$ -	\$ -	\$ 1,655	\$ 1,655
British Pound	913	913	1,109	1,109
Australian Dollar	1,069	1,069	2,915	2,915
Total equity securities	1,982	1,982	5,679	5,679
<b>Fixed Income Securities</b>				
Mexican Peso		1,430	-	1,442
Total fixed income securities	-	1,430	-	1,442
<b>Commingled Funds</b>				
Various currency denominations				
Commingled - Non-U.S. equity	287,990	287,990	307,771	307,771
Commingled - Absolute return	275,600	275,600	235,715	235,715
Commingled - Private equity	40,798	40,798	32,678	32,678
Commingled - Real estate	-	-	3,990	3,990
Total commingled funds	604,388	604,388	580,154	580,154
Total exposure to foreign currency risk	\$ 606,370	\$ 607,800	\$ 585,833	\$ 587,275

**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

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

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 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 described previously 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 the investment manager, who has a conflict of interest in that he or she is compensated for performance are considered and reviewed by the Foundation management and Investment Company. Real assets may be subject to physical damage from a variety of means, 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.

**Endowment Payout**

For the years ended June 30, 2019 and 2018 endowment payout was allocated to Foundation donor-restricted endowment funds (internal pool) and external pool participants, as follows:

*in thousands of dollars*

	<b>2019</b>		
	<b>External Pool Participants</b>	<b>Foundation</b>	<b>Total</b>
Investment income, net	\$ 1,548	\$ 8,546	\$ 10,094
Net accumulated gains and corpus	9,731	53,709	63,440
Endowment payout	<u>\$ 11,279</u>	<u>\$ 62,255</u>	<u>\$ 73,534</u>

  

	<b>2018</b>		
	<b>External Pool Participants</b>	<b>Foundation</b>	<b>Total</b>
Investment income, net	\$ 1,111	\$ 5,089	\$ 6,200
Net accumulated gains and corpus	9,527	47,152	56,679
Endowment payout	<u>\$ 10,638</u>	<u>\$ 52,241</u>	<u>\$ 62,879</u>

Endowment payout is shown net of endowment cost recovery fees of \$6.0 million and \$5.1 million for 2019 and 2018, 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 the historical gift value of such endowments. The underwater amount of such endowments was

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

\$0.2 million at June 30, 2019 and 2018. Under UPMIFA, investment income and accumulated realized and unrealized gains may be expended in support of the operational requirements of UCSF programs.

**6. Pledges Receivable**

Pledges receivable at June 30, 2019 and 2018 consist of the following unconditional promises to give:

<i>in thousands of dollars</i>	2019	2018
Pledges due in one year or less	\$ 37,150	\$ 54,796
Less: Allowance for uncollectible pledges	(1,312)	(1,588)
Pledges receivable, current	35,838	53,208
Pledges due between one and five years	56,938	88,697
Pledges due in more than five years	54	-
Pledges due in more than one year	56,992	88,697
Less		
Allowance for uncollectible pledges	(741)	(1,052)
Unamortized discount	(1,923)	(2,475)
Pledges receivable, noncurrent	54,328	85,170
Total pledges receivable	\$ 90,166	\$ 138,378

Pledges from two donors represent more than 10% individually of total pledges receivable at June 30, 2019, and pledges from one donor represent more than 10% individually of total pledges receivable at June 30, 2018. They represent 47.2% and 62.7% in the aggregate of total pledges receivable at June 30, 2019 and 2018, respectively.

In addition to the pledge balances and revenue reflected in these financial statements, the Foundation has conditional pledges that will be recognized as conditions and milestone events specified by the donors are met by the University, 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 payments are received.

**7. Operating Lease Contractual Commitments**

Beginning in 2017, the Investment Company entered into a lease agreement for office space. The lease has been recorded as an operating lease. Total rental expense under the lease for the years ended June 30, 2019 and 2018 was \$0.2 million, respectively. The terms of the lease extend through 2024.

Future minimum operating lease payments for periods subsequent to June 30, 2019, in thousands of dollars, are as follows:

**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

---

*in thousands of dollars*

Year	Payments Subsequent To June 30, 2019
2020	\$ 213
2021	219
2022	226
2023	232
Thereafter	98
<b>Total</b>	<b>\$ 988</b>

**8. 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.

**9. 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.

**10. Blended Component Units**

Condensed combining information for the Foundation's blended components units for the years ended June 30, 2019 and 2018 is as follows:



**University of California San Francisco Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018**

*in thousands of dollars*

**CONSOLIDATING STATEMENT OF NET POSITION**

2019				
	Foundation	Investment Company	Eliminations	Total
<b>Assets</b>				
Current assets	\$ 237,336	\$ 1,601	\$ -	\$ 238,937
Noncurrent assets	2,067,327	-	-	2,067,327
<b>Total assets</b>	<b>2,304,663</b>	<b>1,601</b>	<b>-</b>	<b>2,306,264</b>
<b>Liabilities</b>				
Current liabilities	33,855	1,422	-	35,277
Noncurrent liabilities	283,927	82	-	284,009
<b>Total liabilities</b>	<b>317,782</b>	<b>1,504</b>	<b>-</b>	<b>319,286</b>
<b>Deferred inflows of resources</b>				
Deferred inflows from irrevocable split interest agreements	31,377	-	-	31,377
<b>Total deferred inflows of resources</b>	<b>31,377</b>	<b>-</b>	<b>-</b>	<b>31,377</b>
<b>Net position</b>				
Restricted - Nonexpendable	836,001	-	-	836,001
Restricted - Expendable	1,119,104	97	-	1,119,201
Unrestricted	399	-	-	399
<b>Total net position</b>	<b>\$ 1,955,504</b>	<b>\$ 97</b>	<b>\$ -</b>	<b>\$ 1,955,601</b>

**CONSOLIDATING STATEMENT OF OPERATIONS & CHANGES IN NET POSITION**

2019				
	Foundation	Investment Company	Eliminations	Total
<b>Operating Income</b>				
Operating revenues	\$ 250,828	\$ 4,945	\$ (4,945)	\$ 250,828
Operating expenses	(340,380)	(5,059)	4,945	(340,494)
<b>Net operating income</b>	<b>(89,552)</b>	<b>(114)</b>	<b>-</b>	<b>(89,666)</b>
<b>Nonoperating income</b>				
Nonoperating income	80,891	-	-	80,891
<b>Net income before other changes in net assets</b>	<b>(8,661)</b>	<b>(114)</b>	<b>-</b>	<b>(8,775)</b>
Other changes in net assets	113,882	-	-	113,882
<b>Increase in net position</b>	<b>105,221</b>	<b>(114)</b>	<b>-</b>	<b>105,107</b>
<b>Net position</b>				
Beginning of year	1,850,283	211	-	1,850,494
End of year	\$ 1,955,504	\$ 97	\$ -	\$ 1,955,601

**CONSOLIDATING STATEMENT OF CASH FLOWS**

2019				
	Foundation	Investment Company	Eliminations	Total
Net cash provided by (used in) operating activities	\$ (92,811)	\$ (34)	\$ -	\$ (92,845)
Net cash provided by noncapital financing activities	114,840	-	-	114,840
Net cash provided by (used in) investing activities	(33,522)	-	-	(33,522)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(11,493)</b>	<b>(34)</b>	<b>-</b>	<b>(11,527)</b>
Cash and cash equivalents at beginning of the year	395,253	1,616	-	396,869
<b>Cash and cash equivalents at end of the year</b>	<b>\$ 383,760</b>	<b>\$ 1,582</b>	<b>\$ -</b>	<b>\$ 385,342</b>





University of California San Francisco Foundation  
Notes to Consolidated Financial Statements  
June 30, 2019 and 2018

*in thousands of dollars*

**CONSOLIDATING STATEMENT OF NET POSITION**

2018					
	Foundation	Investment Company	Eliminations	Total	
<b>Assets</b>					
Current assets	\$ 241,122	\$ 1,636	\$ -	\$ 242,758	
Noncurrent assets	1,946,595	-	-	1,946,595	
Total assets	2,187,717	1,636	-	2,189,353	
<b>Liabilities</b>					
Current liabilities	36,352	1,425	-	37,777	
Noncurrent liabilities	272,184	-	-	272,184	
Total liabilities	308,536	1,425	-	309,961	
<b>Deferred inflows of resources</b>					
Deferred inflows from irrevokable split interest agreements	28,898	-	-	28,898	
Total deferred inflows of resources	28,898	-	-	28,898	
<b>Net position</b>					
Restricted - Nonexpendable	720,293	-	-	720,293	
Restricted - Expendable	1,129,560	211	-	1,129,771	
Unrestricted	404	-	-	404	
Total net position	\$ 1,850,283	\$ 211	\$ -	\$ 1,850,494	

**CONSOLIDATING STATEMENT OF OPERATIONS & CHANGES IN NET POSITION**

2018					
	Foundation	Investment Company	Eliminations	Total	
<b>Operating income</b>					
Operating revenues	\$ 356,039	\$ 4,200	\$ (4,200)	\$ 356,039	
Operating expenses	(293,185)	(4,149)	4,200	(293,134)	
Net operating income	62,854	51	-	62,905	
<b>Nonoperating income</b>					
Nonoperating income	198,758	-	-	198,758	
Net income before other changes in net assets	261,612	51	-	261,663	
Other changes in net assets	104,342	-	-	104,342	
Increase in net position	365,954	51	-	366,005	
<b>Net position</b>					
Beginning of year	1,484,329	160	-	1,484,489	
End of year	\$ 1,850,283	\$ 211	\$ -	\$ 1,850,494	

**CONSOLIDATING STATEMENT OF CASH FLOWS**

2018					
	Foundation	Investment Company	Eliminations	Total	
Net cash provided by (used in) operating activities	\$ (82,066)	\$ 413	\$ -	\$ (81,653)	
Net cash provided by noncapital financing activities	105,665	-	-	105,665	
Net cash provided by (used in) investing activities	161,997	-	-	161,997	
<b>Net increase (decrease) in cash and cash equivalents</b>	185,596	413	-	186,009	
Cash and cash equivalents at beginning of the year	209,657	1,203	-	210,860	
<b>Cash and cash equivalents at end of the year</b>	\$ 395,253	\$ 1,616	\$ -	\$ 396,869	