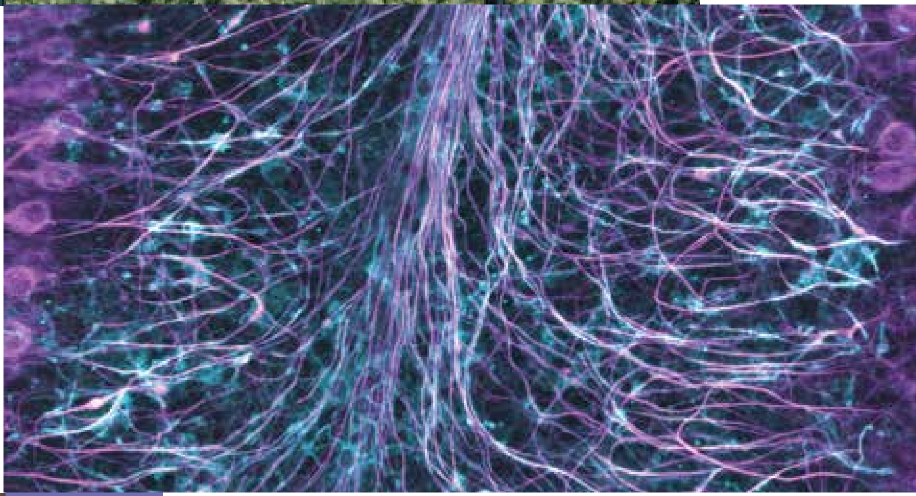

2019 Annual Financial Report

UCSF

here and now

Being present. *Here,* in our local community where our special geography places us in a hub of rapid advances and research capability that amplifies our talents and technical capabilities. Now, as UCSF is poised for acceleration, the type of acceleration that nurtures dramatic change and fuels discovery. Our here and now, how we show up in the world in 2019, is underpinned by our unwavering commitment to the public that supports us, and our establishment of UCSF as an anchor institution. We seek to improve their wellbeing and bolster the community that surrounds us. We live our values of diversity, equity and inclusion, and exist for our learners, faculty, staff and the public. Every day we strive to address the growing inequity in society and advance health access by promoting and supporting new ways of learning and working, forming partnerships that propel our core mission, and fostering an environment of unfettered freedom.

Research + Education + Patient Care

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An anchor in the community

UCSF is at an intersection of circumstances, an inflection point in which we are experiencing a period of unprecedented growth in the midst of growing societal inequality. Our year-over-year performance remains strong and UCSF revenues supporting core activities continued to grow. Our financial resiliency has provided us with the opportunity to establish UCSF as an anchor institution: an institution that leverages its resources to invest locally through actions that will positively impact the economic security of the community, counter inequity, and improve the well-being of the under-resourced in our community. Our commitment to strengthening our role as an anchor institution is intended to build upon last year's focus on community and to bolster our efforts already underway across UCSF's three mission pillars of research, education, and patient care.

Across the campus, great things are happening. UCSF received eight awards for best communications and outreach from the Council for Achievement and Support of Education, and 40+ campaigns were launched on the *Together at UCSF* personal fundraising platform in support of a wide range of projects, demonstrating the tremendous compassion, skill, and commitment of the people in our UCSF community.

UCSF continues to receive top rankings, and is consistently in the top ten, winning awards for education and patient care, reinforcing UCSF's reputation as one of the premier health science universities in the world:

- UC San Francisco's research has been ranked among the top 10 in the world in nine subject areas, according to *U.S. News & World Report*'s Best Global Universities rankings.
- UCSF's School of Medicine placed in the top five nationally in all seven of the specialty areas covered in this year's *U.S. News & World Report* survey of best graduate and professional schools: second in anesthesiology, obstetrics & gynecology, and radiology; third in internal medicine; fourth in surgery; and fifth in pediatrics and psychiatry.
- UCSF's School of Nursing was ranked 11th overall among nursing master degree programs and its specialty programs were highly ranked.
- UCSF Medical Center is ranked seventh in the country in a 2019-2020 survey by *U.S. News & World Report* and among the top 10 medical centers nationwide in 10 of the 15 specialties for which it was assessed.
- UCSF Benioff Children's Hospitals in Oakland and San Francisco are recognized as the best hospitals in California in five pediatric specialties and nationally ranked by *U.S. News & World Report* in all 10 specialties.

PAUL JENNY

Senior Vice Chancellor
Finance and Administration

Our faculty shape our future, not only by teaching our students, but inspiring them with their research and innovative spirit. In addition, they demonstrated outstanding professional achievements with four UCSF faculty members among the 90 new members and 10 international members elected to the National Academy of Medicine (NAM), one of the highest honors in the fields of health and medicine, bringing our membership total in the NAM to 110:

- Julia Adler-Milstein, PhD, Associate Professor of Medicine and Director, Center for Clinical Informatics and Improvement Research, School of Medicine.
- Laura M. Gottlieb, MD, MPH, Associate Professor of Family and Community Medicine, School of Medicine and Director, Social Interventions Research and Evaluation Network.
- Diane Havlir, MD, Professor and Associate Chair of Clinical Research, Department of Medicine and Chief, Division of HIV, Infectious Diseases, and Global Medicine, School of Medicine.
- Kristine Yaffe, MD, Roy and Marie Scola Endowed Chair and Vice Chair of Research in Psychiatry, Professor, Departments of Psychiatry, Neurology, and Epidemiology, and Director, Center for Population Brain Health, School of Medicine.

Our generous donors continue to support and enable the groundbreaking research and clinical programs at UCSF, resulting in life-saving advances for our community. We are experiencing a remarkable period of opportunity and with our full promise of innovation, partnership, and a culture of caring and healing, it is incumbent upon us in 2020 to leverage our collaborations to be more and do more in our community, and for all.

reflecting the opportunities we have in the communities we serve

Showing up in our community. It is what UCSF has stood for and demonstrated throughout our 150 year history. In the Bay Area, where the cost of living is 60% higher than the U.S. average, providing access to healthcare is not enough. We are leveraging our economic power and collaborative partnerships as an anchor institution, rooted in our local community. As an anchor institution, our mission, partnerships, invested capital, and relationships with learners, faculty, staff, vendors, and public are our focus as we make a significant commitment to rethink and reshape the ways we are present in the community. We seek to broaden our impact as an economic catalyst, mitigate and counter the region's growing inequalities in health access and outcomes, incomes and opportunity, to improve the well-being of our community.

By joining in a growing national movement to establish "anchor institutions" and making an unwavering commitment to strengthen and support the under-resourced populations that surround us, UCSF is building upon a commitment to community long established and evident in our three mission pillars of research, education and patient care. As the second largest employer in San Francisco, a $9 billion community impact, we have an obligation to harness our collective power to address social determinants of health, advance health equity and change the economic trajectories of families living in the marginalized communities we serve by hiring, buying and investing locally.

There has been a period of remarkable growth at UCSF in recent years — growth in students, faculty and staff, facilities and budget. We have 43,000 people who call UCSF home. Our partnerships not only support the growing health needs of the region, but augment what UCSF can accomplish alone.

committed to strengthening and supporting

Our growth in patient care will include the opening of the Weill Neuroscience Building, the Valley Vision Neuroscience Building, and the Pritzker Psychiatry Building at Mission Bay next year, new hospital facilities at the Parnassus Heights and Oakland campuses, and the new research and academic building at Zuckerberg SF General Hospital and Trauma Center Campus.

Research has been converging across different disciplines such as computer and data science, engineering, mathematics, physics, economics, law, business, and the environmental sciences. UCSF is at the forefront of this convergence establishing transformational partnerships. **The Biohub**, a joint collaborative effort by UCSF, Berkeley and Stanford, is funded by a $600 million commitment from the Chan Zuckerberg Initiative to establish a medical science research center and brings together the best and brightest biologists, scientists, engineers and technologists to make the fundamental discoveries that will enable doctors to cure, prevent or manage all diseases.

The Accelerating Therapeutics for Opportunities in Medicine (ATOM) consortium brings together GlaxoSmithKline, Lawrence Livermore National Laboratory, Frederick National Laboratory for Cancer Research, and UCSF to transform drug discovery and accelerate the development of more effective therapies for patients.

Curriculum advances and reforms across our five professional programs — dentistry, medicine, nursing, pharmacy, and physical therapy led to the launch of three new initiatives: a three-year PharmD curriculum, a Doctor of Nursing Practice program, and establishment of the San Joaquin Valley Program in Medical Education at UCSF Fresno, firmly establishing us as a leader in curriculum innovation.

The Brilliant Minds initiative of the University's fundraising campaign to help reduce student debt through scholarships, the opening of the Student Success Center on Parnassus to bring together key student services, and the start of construction of new multicultural centers on both the Parnassus and Mission Bay campuses, will support student well-being well into the future.

UCSF is experiencing a time of unprecedented opportunity, an intersection of circumstances, here and now. Here, in our local community. Now, as disruptors. The special character of UCSF, elite, but not elitist, the nobility of the work we do, and our commitment to the local community that supports us, all converge to fully engage and empower us. We're driving change in healthcare delivery across the continuum of care, fostering innovation in education, and fueling discovery in solving the biggest problems in biomedical science. Breakthrough will happen here. For our learners, the UCSF community, and the community in which we belong.

the under-resourced populations that surround us

Management Discussion and Analysis

The Management Discussion and Analysis presented in this document is intended to help readers of the financial statements of the University of California, San Francisco (UCSF) better understand the financial position and operating activities for the fiscal 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.

Using the Annual Report

UCSF is one of ten campuses within the University of California (University) system. As such, the UCSF Annual Financial Report is prepared from official University records and accounts maintained in accordance with University policies and relevant accounting principles, generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

UCSF's financial statements have not been separately audited but are included as part of the University financial statement audit. The three basic financial statements in this report, the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows, are presented for UCSF, and the University of California San Francisco Foundation (the Foundation). Additionally, the financial statements include notes that are considered integral to the statements and provide information on the primary accounting principles applied to develop the statements.

The University of California

The University was founded in 1868 as a public, constitutionally empowered, state-supported institution. The University is one of the largest and most acclaimed institutions of higher learning in the world, dedicated to excellence in teaching, research, health care and public service. The University has annual resources of nearly $38.5 billion, and encompasses ten campuses, five medical schools and medical centers, four law schools, and a statewide Division of Agriculture and Natural Resources. The University is also involved in the operation and management of three national laboratories for the U.S. Department of Energy. The University's financial statements are presented as a discrete component of the state's general-purpose financial statements and are available at http://reportingtransparency.universityofcalifornia.edu.

Education

Creating Catalysts for Change with New PharmD Program

Rooted in science as its distinguishing strength, the new PharmD curriculum introduced by the UCSF School of Pharmacy exposes students from day one to what pharmacists actually do and the latest questions in research and patient care, all to get students asking the "why's," "how's," and "if's" that will help them ensure that patients are on the safest, most effective drugs. With a focus on developing the skill to solve problems by thinking scientifically, teaching through the lens of organ systems and disease categories, and getting students to a degree quicker with an accelerated 3-year program, today's PharmD students are well on their way to becoming catalysts for change for their patients.

Igor Mitrovic, MD, addresses his first-year doctor of pharmacy students
Photo by Elisabeth Fall

The University of California, San Francisco

UCSF is a leading public university dedicated to promoting health worldwide through advanced biomedical research, graduate-level education in the life sciences and health professions, and excellence in patient care. It is significantly different from the other nine University campuses, as UCSF:

- Focuses exclusively on the health sciences
- Enrolls approximately 3,200 graduate and professional students, and no undergraduate students
- Receives 1 percent of revenues from student tuition and fees, net of allowances
- Receives 2 percent of revenues from state appropriations, generally supporting the educational mission
- Receives approximately 87 percent of revenues from its clinical and research enterprises
- Operates a large, not-for-profit health system in a highly competitive market
- Generates nearly 43,000 jobs and produces an estimated $9 billion in economic impact
- Provides over $1.1 billion in uncompensated or under-compensated care and over 100 community engagement programs

UCSF students embody our passion for improving human condition and pushing health care forward. UCSF has four professional schools — Dentistry, Medicine, Nursing and Pharmacy and the Graduate Division that consistently rank as top programs nationwide in their fields and attract the world's most talented students.

UCSF achieves its mission of advancing health worldwide™ through innovations in health sciences education, discovery and patient care that address the five goals outlined in our strategic plan. These goals are:

- Provide innovative, high-quality, cost-competitive clinical services, and deliver an unparalleled patient experience across the entire care continuum
- Promote a high value system of care
- Achieve a culture of continuous process improvement
- Be the workplace of choice for diverse, top-tier talent
- Create a financially sustainable enterprise-wide business model

UCSF Medical Center is a world-renowned research and teaching hospital with facilities located throughout San Francisco and the Bay Area, and is one of the leading hospitals in the United States. It serves as the principal clinical teaching site for the University of California, San Francisco, School of Medicine, affiliated with the University of California since 1873. UCSF Medical Center provides inpatient care at Moffitt-Long Hospital on the 107-acre Parnassus campus and at UCSF Benioff Children's Hospital and Baker Cancer Hospital in San Francisco's Mission Bay neighborhood. UCSF Medical Center also provides outpatient hospital care at the hospital sites, UCSF Mount Zion and physician clinical care at those hospitals and other locations primarily in San Francisco. It also has a national cancer institute designated as a National Comprehensive Cancer Network Member Institution. UCSF Medical Center in San Francisco is licensed to operate 1,276 beds. UCSF Faculty Clinical Practices is the faculty practice organization for the more than 1,100 UCSF faculty physicians. Langley Porter Psychiatric Hospital and Clinics (LPPH&C) consists of an adult inpatient unit, an adult Partial Hospitalization Program and adult/child outpatient services and serves all ethnic and socio-economic groups who reside in San Francisco and the greater Bay Area, as well as those referred from areas throughout the western United States. The University of California is the sole corporate and voting member of Children's Hospital & Research Center Oakland (CHRCO). Now known and doing business as UCSF Benioff Children's Hospital Oakland (BCHO), the 107-year old hospital retains its status as a private, not-for-profit 501(c)(3) medical center, offering children and their families outstanding medical, surgical and mental health care. It is one of only five American College of Surgeons (ACS) Pediatric Level 1 Trauma Centers in the state, and has one of the largest pediatric intensive care units in Northern California. It is a leading teaching hospital with an outstanding pediatric residency program and a number of unique pediatric subspecialty fellowship programs. BCHO's research arm, Children's Hospital Oakland Research Institute, is internationally known for its basic and clinical research.

UCSF Medical Center, UCSF Faculty Clinical Practices, Langley Porter Psychiatric Hospitals and Clinics, and UCSF Benioff Children's Hospital Oakland are also included in the UCSF financial statements and are collectively referred to as "UCSF Health." To help clarify the financial position of UCSF, many tables in the financial statements show information on UCSF Health separately from information for the rest of the UCSF enterprise (referred to as "Campus").

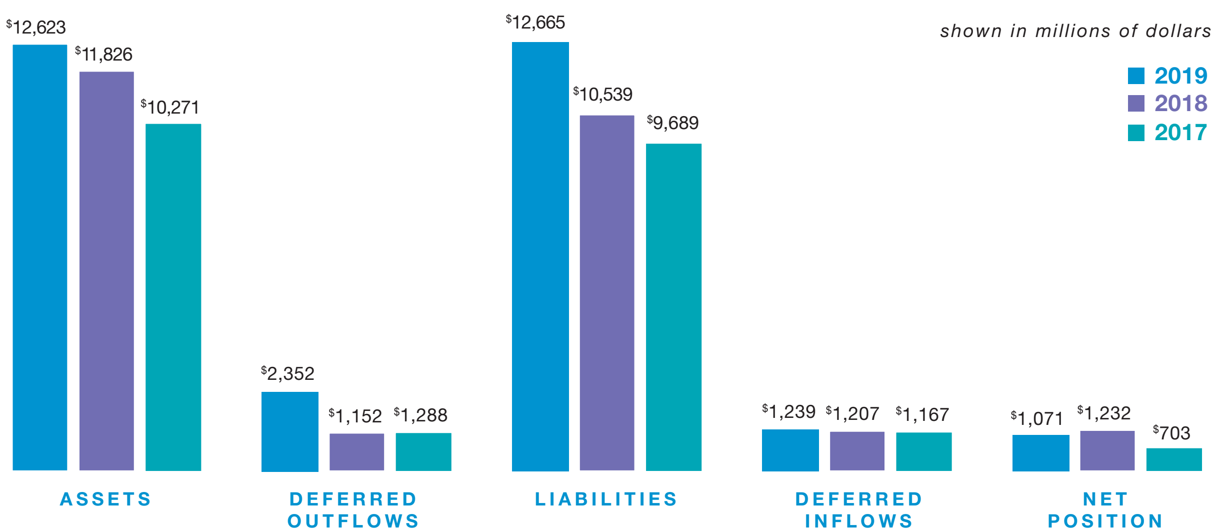
The Campus financial statements also include information on the Campus Facilities Improvement Association (CFIA). This legally separate, not-for-profit public benefit corporation was established for charitable and educational purposes. It currently provides services for the benefit of The Regents on behalf of UCSF, including the development, financing, construction, and management of certain buildings and facilities.

UCSF Health and CFIA have each issued separate audited financial statements containing additional information.

The University of California, San Francisco Foundation

The Foundation was incorporated in 1982 as a not-for-profit corporation, dedicated to providing valuable assistance in fundraising, public outreach and other support to UCSF. Although governed by an independent board, the Foundation is affiliated with, and its assets are dedicated for, the sole benefit of UCSF. The Foundation holds and invests gifts and Foundation expenditures are generally limited to distributions to support UCSF and normal administrative costs. This support is recorded as gift revenue by UCSF. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Foundation's financial statements are presented in UCSF's financial statements in a separate column titled "UCSF Foundation." In addition, this document summarizes information on the Foundation in a separate section.

UCSF's Financial Position



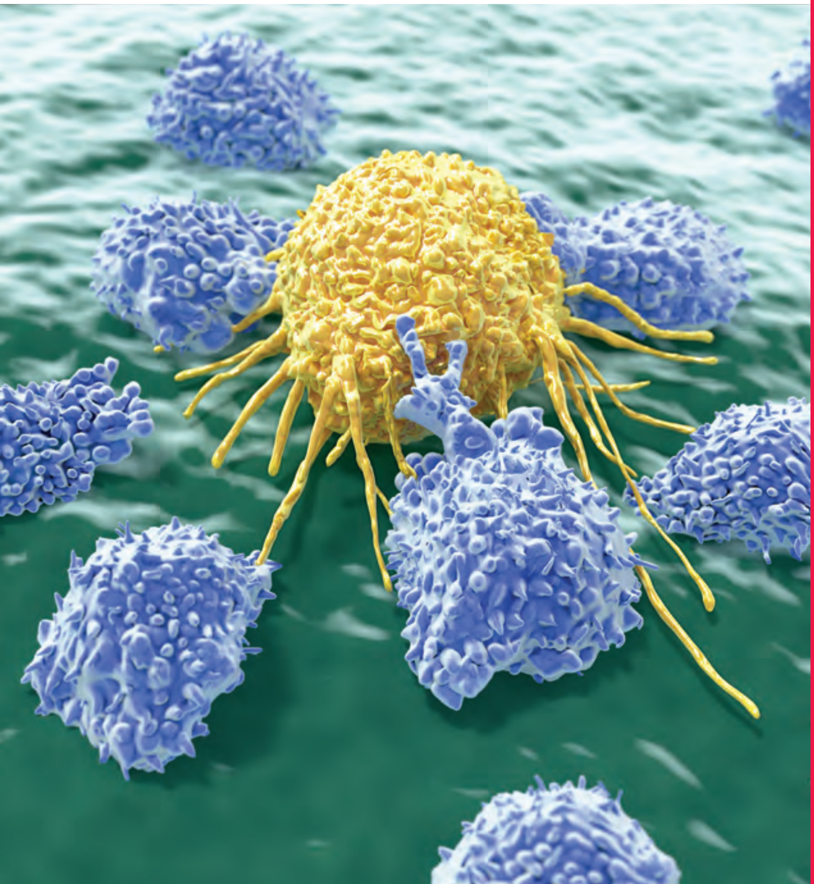
The statements of net position presents the financial position of UCSF at the end of each year. It displays all of UCSF's assets, deferred outflows, liabilities and deferred inflows. The difference between assets, deferred outflows, liabilities and deferred inflows is net position, representing a measure of the current financial condition of UCSF.

The University implemented a new accounting policy for certain asset retirement obligations. This change in accounting policy provides recognition and measurement standards for legally and contractually enforceable liabilities associated with the retirement of tangible capital assets. Financial information for 2018 and 2017 has been restated to retroactively apply this new accounting policy.

The major components of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position, as of June 30, 2019, 2018 and 2017 are as follows:

(in millions of dollars)				Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	2019	2018	2017	$ Change	% Change	$ Change	% Change
ASSETS							
Cash and cash equivalents	$1,161	$1,113	$1,091	$48	4%	$22	2%
Investments	4,270	3,697	3,347	573	15	350	10
Accounts receivable, net	1,063	948	809	115	12	139	17
Capital assets, net	5,262	4,860	4,550	402	8	310	7
Other assets	867	1,208	474	(341)	(28)	734	155
Total assets	**12,623**	**11,826**	**10,271**	**797**	**7**	**1,555**	**15**
DEFERRED OUTFLOWS OF RESOURCES	**2,352**	**1,152**	**1,288**	**1,200**	**104**	**(136)**	**(11)**
LIABILITIES							
Debt	3,413	3,436	2,619	(23)	(1)	817	31
Due to University	812	722	655	90	12	67	10
Net pension liability	3,231	1,760	1,878	1,471	84	(118)	(6)
Net retiree health benefits liability	3,643	3,339	3,377	304	9	(38)	(1)
Other liabilities	1,566	1,282	1,160	284	22	122	11
Total liabilities	**12,665**	**10,539**	**9,689**	**2,126**	**20**	**850**	**9**
DEFERRED INFLOWS OF RESOURCES	**1,239**	**1,207**	**1,167**	**32**	**3**	**40**	**3**
NET POSITION							
Net investment in capital assets	1,829	1,443	2,101	386	27	(658)	(31)
Restricted, nonexpendable	515	512	484	3	1	28	6
Restricted, expendable	2,495	2,829	1,598	(334)	(12)	1,231	77
Unrestricted	(3,768)	(3,552)	(3,480)	(216)	(6)	(72)	(2)
Total net position	**$1,071**	**$1,232**	**$703**	**($161)**	**13%**	**$529**	**75%**

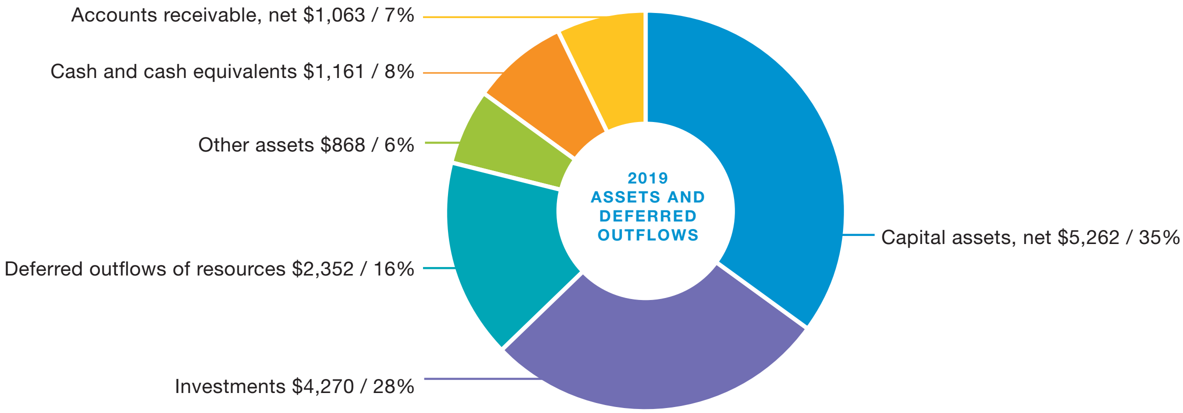
Research



Turning a Patient’s Own Immune Cells into Cancer-Killing Armies

While today’s scientists are skilled immune system engineers able to manipulate a patient’s own immune cells and turn them into cancer-killing armies and cure some cancers typically considered fatal, they have been working off an incomplete blueprint. Determining precisely which circuits to rewire to ensure a more potent immune system has proved elusive until now. UCSF researchers have devised a CRISPR-based system called SLICE which provides a new method for rapidly assessing the function of each and every gene in primary immune cells, giving scientists a jump on outmaneuvering cancer’s evasive tricks. A major advance over current tools, SLICE helps scientists model the interaction between immune cells and the tumor microenvironment and will generate the next-generation of cell therapies.

UCSF's Assets and Deferred Outflows of Resources



shown in millions of dollars

UCSF's total assets and deferred outflows of resources increased $2 billion, or 15 percent, to $15.0 billion in 2019 from $13.0 billion in 2018. Total assets and deferred outflows of resources increased by $1.4 billion, or 12 percent in 2018, from $11.6 billion in 2017. Assets consist primarily of capital assets, cash and cash equivalents, investments, accounts receivable, net and, to a lesser extent, investments held by trustee and inventory.

The sections below provide more details on the various components of UCSF's assets and deferred outflows of resources, comparing the 2019, 2018 and 2017 positions where meaningful.

Cash, cash equivalents, and investments

Cash, cash equivalents, and investments increased $621 million, or 13 percent, in 2019 and consist of the following:

(in millions of dollars)	Campus			UCSF Health			Total			Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	2019	2018	2017	2019	2018	2017	2019	2018	2017	$ Change	% Change	$ Change	% Change
Bank depository accounts		$1	$5					$1	$5	($1)	(100%)	($4)	(80%)
Short-term investment pool	$165	260	415	$996	$852	$671	$1,161	1,112	1,086	49	4	26	2
Total return investment pool	1,978	1,682	1,677				1,978	1,682	1,677	296	18	5	0
Investments	2,046	1,778	1,454	246	237	216	2,292	2,015	1,670	277	14	345	21
Cash, cash equivalents, and investments	**$4,189**	**$3,721**	**$3,551**	**$1,242**	**$1,089**	**$887**	**$5,431**	**$4,810**	**$4,438**	**$621**	**13%**	**$372**	**8%**

Cash, cash equivalents and investments for the Campus increased $468 million, or 13 percent and $170 million, or 5 percent in 2019 and 2018, respectively, primarily due to strong investment market gains from The Regents' endowments. Cash, cash equivalents and investments for UCSF Health increased $153 million, or 14 percent, and $202 million, or 23 percent, in 2019 and 2018, respectively, primarily due to an increase in cash from hospital operations.

All University operating entities maximize the returns on their cash balances by investing in a Short Term Investment Pool (STIP) managed by the Treasurer of The Regents. The Regents are responsible for managing the University's STIP and establishing the investment policy, which is carried out by the Treasurer of The Regents.

Substantially, all of UCSF's cash is deposited into the STIP, and all UCSF deposits into the STIP are considered demand deposits except for certain deposits held for hospital construction. The net asset value for the STIP is held at a constant value of $1, not adjusted for unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (which are predominately held to maturity) and are not recorded by each operating entity but absorbed by the University as the manager of the pool. None of these amounts are insured by the Federal Deposit Insurance Corporation. To date, UCSF has not experienced any losses on these accounts.

Investments are reported at fair value. Investments consist of investments in the UC Regents Total Return Investment Pool (TRIP) and General Endowment Pool (GEP). BCHO investments consist of investments in the Foundation's Endowed Investment Pool (EIP) and other investment securities. The basis of determining the fair value of pooled funds or mutual funds is determined as the number of units held in the pool multiplied by the price per unit share, computed on the last day of the month. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

Foundation investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded at estimated fair value at the date of donation.

Investment income is reported as nonoperating revenue in the statements of revenues, expenses and changes in net position.

Accounts receivable, net

Accounts receivable, net of allowance for uncollectable accounts, increased $115 million, or 12 percent, in 2019 compared to 2018 and increased by $139 million, or 17 percent in 2018 as compared to 2017. Accounts receivable, net consist of the following:

(in millions of dollars)				Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	2019	2018	2017	$ Change	% Change	$ Change	% Change
Federal government	$89	$78	$73	$11	14%	$5	7%
State government	23	29	23	(6)	(21)	6	26
Local and private	101	107	67	(6)	(6)	40	60
Patient receivables	682	595	555	87	15	40	7
Other	168	139	91	29	21	48	53
Accounts receivable, net	**$1,063**	**$948**	**$809**	**$115**	**12%**	**$139**	**17%**

Details on the key components of accounts receivable are as follows:

- Federal, state and local government, as well as private support, primarily relates to contract and grants receivables and fluctuates based on timing of invoicing and payment cycles.
- Patient receivables relate to UCSF Health increased year over year due to higher patient volumes resulting from continued growth.
- Other accounts receivable primarily consists of campus clinical revenue and fluctuates based on timing of services performed in clinics.

Capital assets, net

Capital assets, net of accumulated depreciation, increased $402 million, or 8 percent, in 2019 compared to 2018 and increased by $310 million, or 7 percent, in 2018 compared to 2017. Capital assets include land, infrastructure, buildings and improvements, equipment and software, libraries, collections, and construction in progress. UCSF continues to invest in capital spending as part of the ongoing effort to provide facilities to support UCSF's teaching, research and patient care missions. These facilities include core academic research and teaching buildings, patient care facilities, student services facilities, housing and other auxiliary enterprises, infrastructure, and remote centers for educational research and outreach.

Capital asset balances by category consist of the following:

(in millions of dollars)	2019			2018	2017	Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	Campus	UCSF Health	Total	Total	Total	$ Change	% Change	$ Change	% Change
Land	$351	$143	$494	$494	$468			$26	6%
Infrastructure	64		64	64	54			10	19
Buildings and improvements	3,053	2,905	5,958	5,783	5,517	$175	3%	266	5
Equipment and software	491	1,149	1,640	1,585	1,513	55	3	72	5
Libraries and collections	110		110	110	110				
Construction in progress	711	341	1,052	572	327	480	84	245	75
Capital assets, at original cost	**4,780**	**4,538**	**9,318**	**8,608**	**7,989**	**710**	**8**	**619**	**8**
Less: accumulated depreciation	(1,946)	(2,110)	(4,056)	(3,748)	(3,439)	308	8	309	9
Capital assets, net	**$2,834**	**$2,428**	**$5,262**	**$4,860**	**$4,550**	**$402**	**8%**	**$310**	**7%**

The original cost for capital assets, net of disposals, increased $710 million, or 8 percent, in 2019 compared to 2018 and increased by $619 million, or 8 percent in 2018 compared to 2017, primarily due to continued building and improvements and equipment purchases for both the Campus and UCSF Health. Accumulated depreciation increased $308 million, or 8 percent in 2019 compared to 2018 and increased by $309 million and 9 percent in 2018 compared to 2017.

The following major facilities and projects were capitalized in 2019:

- Additions to UCSF Medical Center for $265 million, including $60 million in medical equipment and intangible assets. The majority of the additions to building and improvements for UCSF Medical Center relate to Precision Cancer Medicine Building at Mission Bay, and various facility upgrades for aging facilities.

Patient Care

Transplanting Hope for Normally Fatal Fetal Conditions

Unique expertise from UCSF Benioff Children's Hospital resulted in a baby being born that suffered from what would normally be a fatal fetal condition called alpha thalassemia, a blood disorder caused by a gene carried by nearly 5 percent of the world's population. The infant, becoming ill during the second-trimester of pregnancy, was the first patient enrolled in the world's first clinical trial using blood stem cells from her mother transplanted in utero. Combining the forces of the UCSF Fetal Treatment Center in San Francisco (the birthplace of fetal surgery), and UCSF Benioff Children's Hospital Oakland, which established its thalassemia program in 1991, a once universally fatal condition can now be managed as a chronic disease.

Tippi MacKenzie (left), MD, of UCSF Benioff Children's Hospital San Francisco, visits with newborn Elianna.

Photo by Barbara Ries

• Additions to UCSF Campus for $489 million, including $37 million in medical equipment and intangible assets. Major additions to UCSF campus buildings and improvements were for Mission Bay East Campus (Block 33), Neurosciences Research Building, University Housing, Clinical Sciences Building, and various facility upgrades for aging facilities.

At June 30, 2018, major facilities and projects were capitalized including building and improvements for UCSF Medical Center and UCSF Campus. The majority of the additions relate to Precision Cancer Medical Center, Benioff Children's Hospital Oakland Outpatient Center, Health Sciences Building, Medical Science Building at Parnassus, University Housing, and various facility upgrades for aging facilities.

At June 30, 2017, major facilities and projects were capitalized including building and improvements for UCSF Medical Center relate to Moffitt Long Hospital and UC Clinics Buildings at Parnassus, Precision Cancer Medicine Building at Mission Bay, and various facility upgrades for aging facilities.

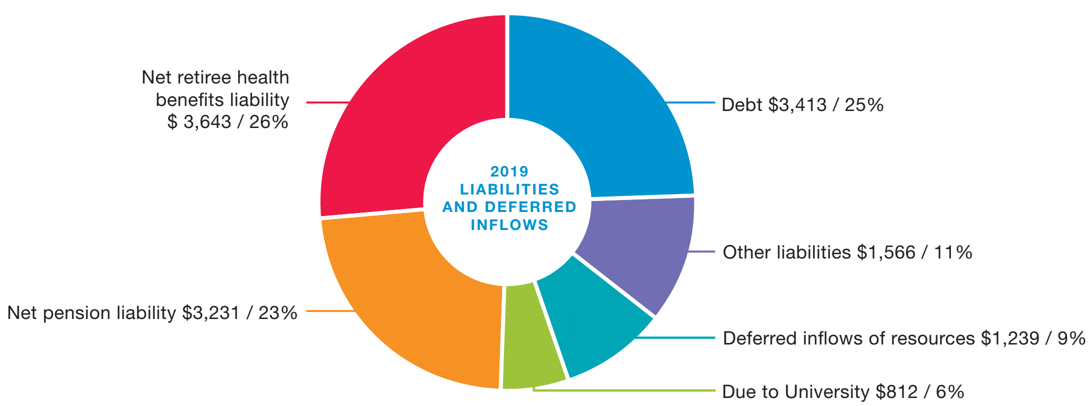
Other assets

Other assets include investments held by trustees, pledge receivables, note and mortgage receivables, inventories and other smaller assets. The decrease in other assets of $341 million, or 28 percent, in 2019 compared to 2018 and an increase of $734 million, or 155 percent, in 2018 compared to 2017, are primarily related to a decrease in investments held by trustee used for capital expenditures.

Deferred outflows of resources

Changes in the net pension liability, retiree health benefits liability, loss on debt refunding, and changes in fair values of UCSF's interest rate swaps that are determined to be hedging derivatives are reported as deferred outflows of resources. The increase of $1,200 million, or 104 percent, in 2019 compared to 2018 is due to changes in the assumptions related to the plan experience study; the decrease of $135 million, or 10 percent, in 2018 compared to 2017 is due higher than expected investment returns in the University of California Retirement Plan (UCRP) portfolio.

UCSF's Liabilities and Deferred Inflows of Resources



shown in millions of dollars

UCSF's total liabilities and deferred inflows of resources increased $2.2 billion, or 18 percent, to $13.9 billion in 2019 from $11.7 billion in 2018 and increased $890 million, or 8 percent to $11.7 billion in 2018 from $10.9 billion in 2017. Liabilities primarily consist of debt, long-term pension and retiree health benefits liabilities, a payable due to the University and, to a lesser extent, accounts payable to vendors for goods and services, accrued compensation for services performed, and unearned revenue.

The sections below provide more details on the various components of UCSF's liabilities and deferred inflow of resources, comparing the 2019, 2018 and 2017 positions where meaningful.

Debt

Capital expenditures are financed from a variety of sources, including UCSF restricted gifts, federal and state support, revenue bonds, bank loans, leases, and other expendable resources. Commercial paper and bank loans provide interim financing.

At $3.4 billion in 2019, outstanding debt decreased $23 million, or 1 percent, from 2018. At $3.4 billion in 2018, outstanding debt increased $817 million, or 31 percent, from 2017. The debt activity is as follows:

(in millions of dollars)	2019			2018			2017		
	Campus	UCSF Health	Total	Campus	UCSF Health	Total	Campus	UCSF Health	Total
ADDITIONS TO OUTSTANDING DEBT									
Commercial paper and bank loans	$23		$23	$31		$31	$4		$4
University of California General Revenue Bonds				522		522	217		217
University of California Limited Project Revenue Bonds				204		204			
University of California Medical Center Pooled Revenue Bonds								$147	147
Third Party - CFIA				210		210			
Other capital lease obligations	1		1	6		6	1		1
Additions to outstanding debt	**24**		**24**	**973**		**973**	**222**	**147**	**369**
REDUCTIONS TO OUTSTANDING DEBT									
Refinancing				(94)		(94)	(4)	(96)	(100)
Scheduled principal payments/amortization	(42)	($4)	(46)	(37)	($5)	(42)	(30)	(5)	(35)
Payments on commercial paper and bank loans	(1)		(1)		(20)	(20)			
Reductions to outstanding debt	**(43)**	**(4)**	**(47)**	**(131)**	**(25)**	**(156)**	**(34)**	**(101)**	**(135)**
Net increase (decrease) in outstanding debt	**($19)**	**($4)**	**($23)**	**$842**	**($25)**	**$817**	**$188**	**$46**	**$234**

Details on the debt activities in 2019 are as follows:

- The Campus received proceeds of $23 million from commercial paper and bank loans to provide short-term financing to use primarily for various Campus projects.

Details on debt activities in 2018 are as follows:

- The Campus received proceeds of $29 million from commercial paper and bank loans to provide short-term financing to use primarily for various Campus projects.
- The Campus received proceeds of $726 million from University General Revenue Bonds and Limited Project Revenue Bonds to refinance the above commercial paper and to use for future capital expenditures related to Minnesota Street Graduate School and Trainee Housing, seismic renovation of the Clinical Sciences Building, Joan and Sanford I. Weill Neurosciences Building, and Precision Cancer Medicine Building.
- CFIA received $210 million from California Infrastructure and Economic Development Bank Bond to fund 2130 3rd Street construction.
- UCSF Health received gift fund of $20 million to pay off commercial paper balance.

Details on the debt activities in 2017 are as follows:

- The Campus received proceeds of $4 million from commercial paper and bank loans to provide short-term financing to use for various Campus projects.
- The Campus received proceeds of $217 million from University General Revenue Bonds to refinance the above commercial paper and to use for future capital expenditures related to Block 33, located at UCSF's Mission Bay campus, seismic renovation of the Clinical Sciences Building and renovation of Medical Science Building.
- UCSF Health received proceeds of $147 million from Medical Center Pooled Revenue Bonds to refinance existing commercial paper which was used to fund BCHO's outpatient center.

Net pension and retiree health benefits liabilities

Net pension liability increased in 2019 by $1.5 billion, or 84 percent, from $1.8 billion in 2018 to $3.2 billion in 2019 and decreased $118 million, or 6 percent in 2018 compared to 2017. UCSF has a financial responsibility for pension benefits associated with its defined benefit plans. The increase in 2019 was primarily driven by changes in assumptions as a result of the most recent experience study, with the reduction in the discount rate and the changes in the morality tables causing the largest increases. The total investment rate of return for UCRP was 6.0 percent in 2019, 7.8 percent in 2018, and 14.5 percent in 2017. The discount rate used to estimate the net pension liability was 6.75 percent as of June 30, 2019, and 7.25 percent as of June 30, 2018 and 2017.

UCSF's net retiree health benefits liability was $3.6 billion, $3.3 billion, and $3.4 billion in 2019, 2018, and 2017, respectively. The change in net retiree health benefits liability in 2019 was driven by the decrease in the discount rate offset by reducing the inflation assumption and strong management of health care costs. The discount rates as of June 30, 2019, 2018, and 2017 were 3.50 percent, 3.87 percent and 3.58 percent, respectively.

Due to University

Due to University represents an amount owed to the University for reimbursement of contributions made by the University to the pension plan assets. Due to University increased $90 million, or 12 percent, in 2019 compared to 2018 and increased by $67 million, or 10 percent in 2018 compared to 2017. The increase is primarily due to an additional investment to the plan by the University.

Other liabilities

Other liabilities consist of accounts payable, accrued salaries and employee benefits, unearned revenue, funds held for others, federal refundable loans, and other smaller liabilities. Other liabilities increased $284 million, or 22 percent in 2019 compared to 2018 and increased $122 million, or 11 percent in 2018 compared to 2017 primarily driven by an increase in third party payor settlements for UCSF Health.

Deferred inflows of resources

Deferred inflows of resources are related to certain changes in the net pension, net retiree health benefits liabilities and changes in the estimated future value of irrevocable split-interest agreements. Deferred inflows of resources increased by $32 million, or 3 percent in 2019 compared to 2018 and increased by $40 million or 3 percent in 2018 compared to 2017. The increase in 2019 and 2018 is primarily due to the decrease in the discount rate for estimating retiree health benefits liability.

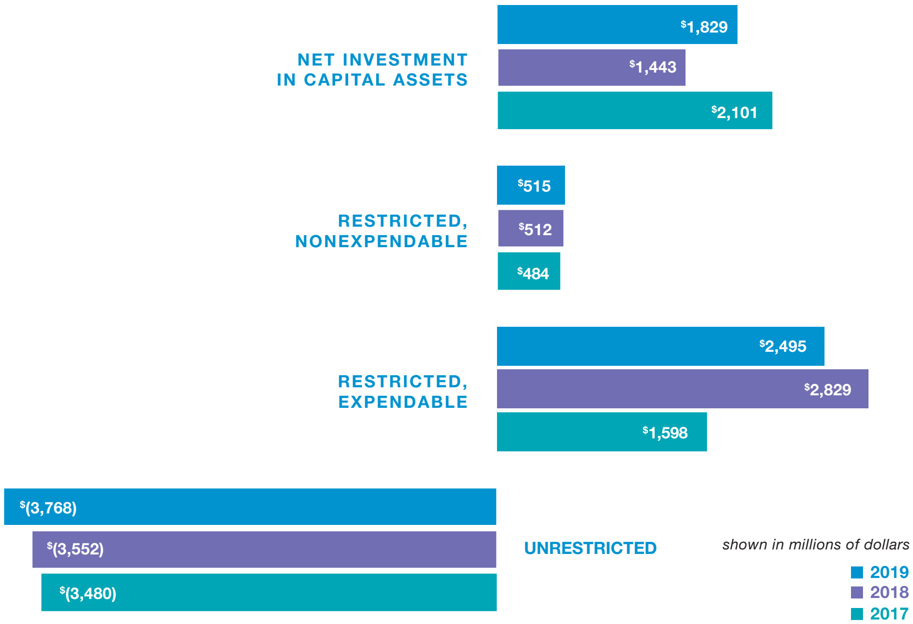
Education

Shaping the Future of Team-Based Mental Health Care

A growing shortage of mental health providers in California coupled with the need for medication support for individuals seeking mental health services was the genesis for the Dyad project, a joint effort between UCSF's School of Nursing and School of Pharmacy to add capacity to mental health teams by training providers how to deeply interact and collaborate in a team environment. Believed to be one of the first of its kind in the world, this novel Interprofessional Practice and Education (IPE) program is already having an impact. By bringing nurse practitioners and clinical pharmacists together, more patients can be helped, gaps in care can be bridged, and patients benefit from a more holistic understanding, leading to innovative and creative solutions.

UCSF's Net Position

Net position represents the residual interest in UCSF's assets and deferred outflows of resources after all liabilities and deferred inflows are deducted. Net position was restated for 2018 and 2017 as a result of adopting new accounting policy for certain asset retirement obligations. UCSF's net position was $1.1 billion in 2019 compared to $1.2 billion in 2018, and $703 million in 2017. Net position is reported in four categories: net investment in capital assets; restricted, nonexpendable; restricted, expendable; and unrestricted. The sections below discuss each of these categories.



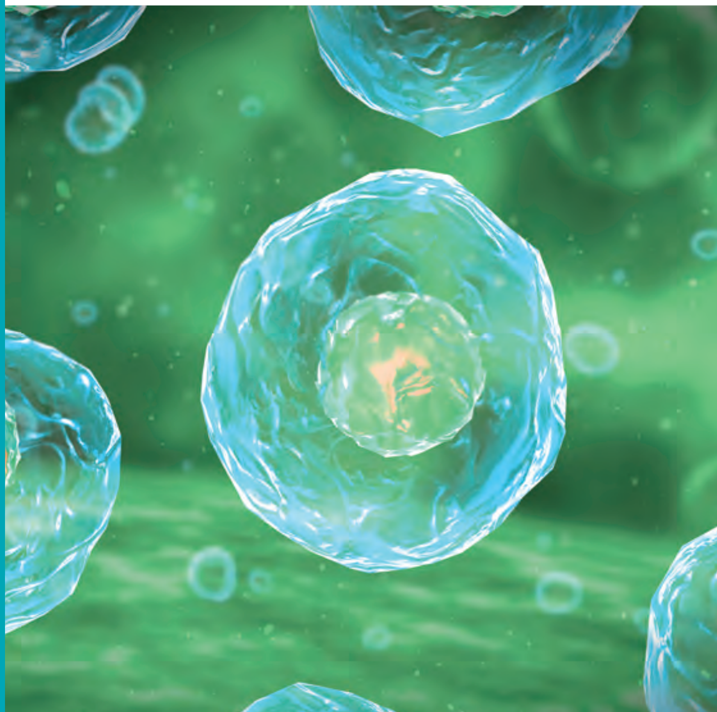
Net investment in capital assets

The portion of net position invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets was $1.8 billion in 2019 compared to $1.4 billion in 2018 and $2.1 billion in 2017. The increase is due to the net addition of capital asset, offsets with debt paydown.

Research

Transforming Human Stem Cells Towards a Diabetes Cure

Generating insulin-producing cells that can be transplanted into patients with the diabetes autoimmune disorder has long been a goal in regenerative medicine, and UCSF researchers achieved a major breakthrough in their efforts to develop a cure for type 1 (T1) diabetes with their transformation of human stem cells into mature insulin-producing cells in a lab dish. These insulin-producing cells that look and act a lot like the pancreatic beta cells in the human body, will help people with T1 diabetes who face serious health consequences and potentially life-threatening complications including serious organ damage and the threat of a pancreas transplant to move beyond simply treating their symptoms to an eventual cure for diabetes.

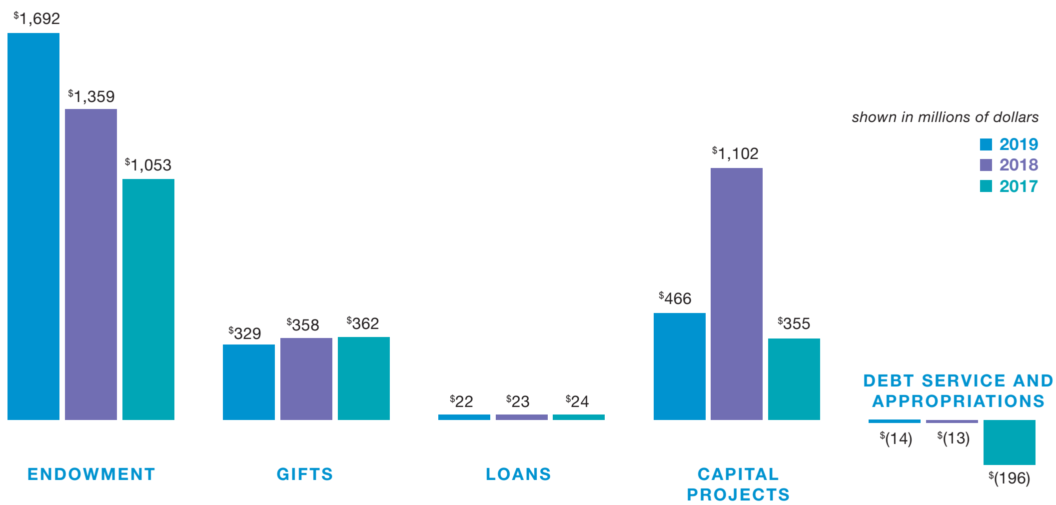


Restricted, nonexpendable

Restricted, nonexpendable net position includes the corpus of UCSF's General Endowment Pool and BCHO's Foundation permanent endowments and the estimated fair value of certain planned giving arrangements. In 2019 and 2018, the increase in restricted, nonexpendable net position was principally due to the receipt of new gifts.

Restricted, expendable

Restricted, expendable net position is subject to externally imposed restrictions governing their use. Net position may be spent only in accordance with the restrictions placed upon them and include endowment income and gains, subject to the University's spending policy, support received from gifts, appropriations or capital projects and trustee-held investments. The increases or decreases in restricted, expendable funds are principally due to the timing of spending restricted gifts and endowment income, endowment investment gains and capital projects. Restricted, expendable net position by type of restriction is as follows:



Restricted, expendable net position decreased $334 million, or 12 percent in 2019 compared to 2018 and increased $1.2 billion or 77 percent in 2018 compared to 2017, primarily due to receipt of current use gifts and gifts and other funds intended for quasi-endowments, and investment income, offset by distribution to UCSF and change in fair market value.

Unrestricted

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although UCSF's unrestricted net position is not subject to externally imposed restrictions, substantially all of the net position is designated internally for academic and research initiatives or programs, or for future capital projects.

Unrestricted net position is in deficit positions of $3.8 billion, $3.6 billion and $3.5 billion in 2019, 2018 and 2017, respectively. The deficits represent the long term liabilities for UCRP and retiree health benefits.

UCSF's Results of Operations

The statements of revenues, expenses and changes in net position is a presentation of UCSF's operating results and indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues budgeted for fundamental operational support of the core instructional mission of UCSF are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

Results of operations for 2018 and 2017 have been restated as a result of adopting new accounting policy for certain asset retirement obligations. A summarized comparison of the operating results of 2019, 2018, and 2017, arranged in a format that matches the revenue supporting the core activities of UCSF with the expenses associated with core activities is as follows:

(in millions of dollars)	YEAR ENDED JUNE 30, 2019			YEAR ENDED JUNE 30, 2018			Increase (decrease) from 2018 to 2019	
	Operating	Nonoperating	Total	Operating	Nonoperating	Total	$ Change	% Change
REVENUES								
Student tuition and fees, net	$60		$60	$58		$58	$2	3%
State educational appropriations		$173	173		$150	150	23	15
Grants and contracts, net	1,517		1,517	1,463		1,463	54	4
Medical center, net	4,781		4,781	4,327		4,327	454	10
Other clinical revenue and educational activities, net	314		314	316		316	(2)	(1)
Auxiliary enterprises, net	73		73	69		69	4	6
Private gifts		323	323		304	304	19	6
Investment income, net		315	315		245	245	70	29
Other revenues	26	45	71	29	123	152	(81)	(53)
Revenues supporting core activities	**6,771**	**856**	**7,627**	**6,262**	**822**	**7,084**	**543**	**8**
EXPENSES								
Salaries	3,533		3,533	3,291		3,291	242	7
Benefits	1,738		1,738	1,083		1,083	655	60
Scholarships and fellowships	35		35	33		33	2	6
Utilities	41		41	41		41	0	0
Supplies and materials	900		900	814		814	86	11
Depreciation	349		349	349		349	0	0
Interest expense		101	101		103	103	(2)	(2)
Professional and purchased services	578		578	521		521	57	11
Subaward expenses	180		180	174		174	6	3
Other expenses	382		382	334		334	48	14
Expenses associated with core activities	**7,736**	**101**	**7,837**	**6,640**	**103**	**6,743**	**1,094**	**16**
Income (loss) from core activities	**(965)**	**755**	**(210)**	**(378)**	**719**	**341**	**(551)**	**(162)**
OTHER CHANGES IN NET POSITION								
Capital gifts and grants		59	59		165	165	(106)	(64)
Changes in payable due to University		3	3		35	35	(32)	(91)
Capital support to University		(13)	(13)		(12)	(12)	(1)	(8)
Other changes in net position		**49**	**49**		**188**	**188**	**(139)**	**(74)**
Increase (decrease) in net position	**($965)**	**$804**	**($161)**	**($378)**	**$907**	**$529**	**($690)**	**(130)**
NET POSITION								
Beginning of year, as previously reported			1,232			703	529	75
Cumulative effect of change in accounting principle								
Beginning of year, as restated			1,232			703	529	75
End of year			**$1,071**			**$1,232**	**($161)**	**(13%)**

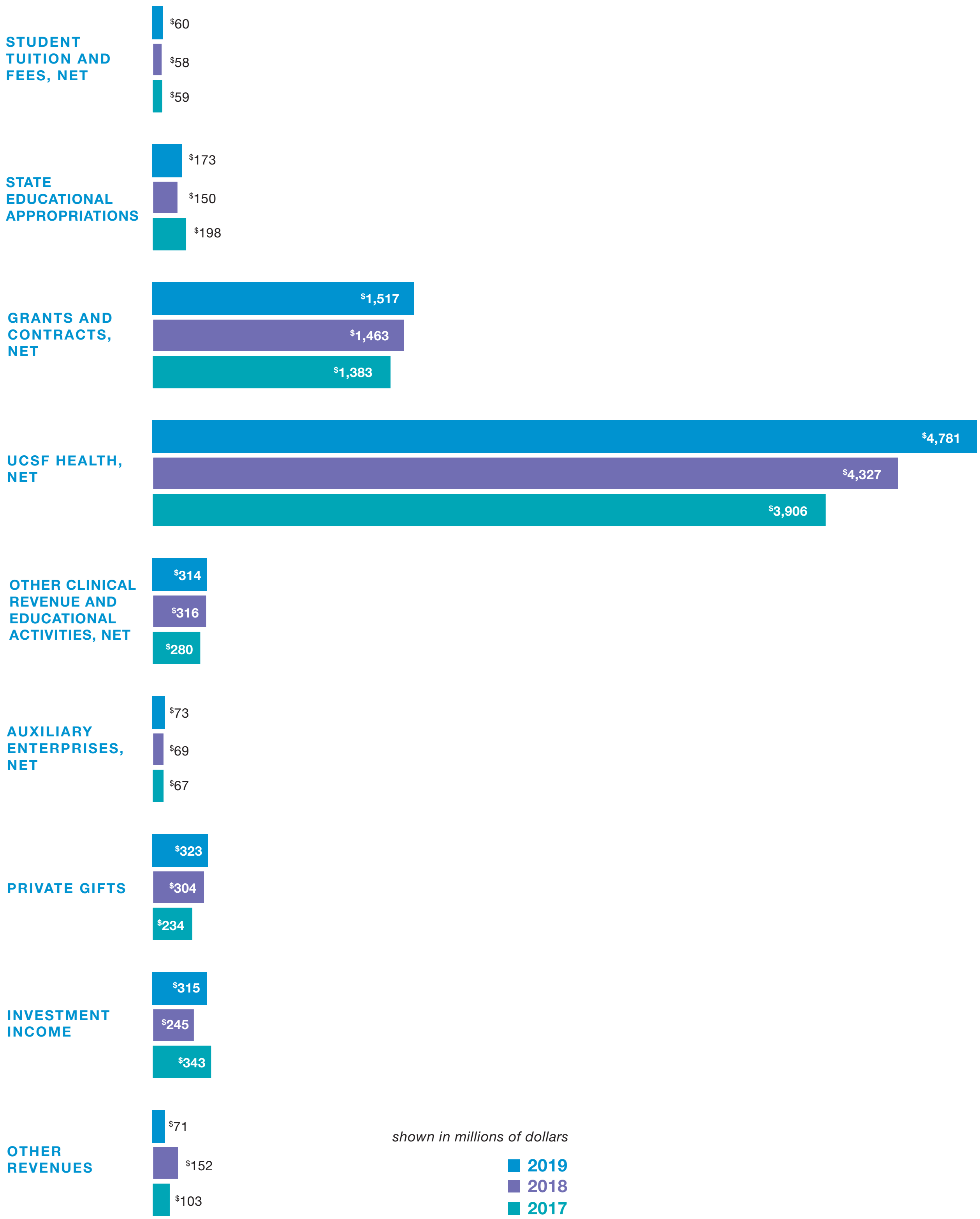
(in millions of dollars)	YEAR ENDED JUNE 30, 2018			YEAR ENDED JUNE 30, 2017			Increase (decrease) from 2017 to 2018	
	Operating	Nonoperating	Total	Operating	Nonoperating	Total	$ Change	% Change
REVENUES								
Student tuition and fees, net	$58		$58	$59		$59	($1)	(2%)
State educational appropriations		$150	150		$198	198	(48)	(24)
Grants and contracts, net	1,463		1,463	1,383		1,383	80	6
Medical Center, net	4,327		4,327	3,906		3,906	421	11
Other clinical revenue and educational activities, net	316		316	280		280	36	13
Auxiliary enterprises, net	69		69	67		67	2	3
Private gifts		304	304		234	234	70	30
Investment income		245	245		343	343	(98)	(29)
Other revenues	29	123	152	43	60	103	49	48
Revenues supporting core activities	**6,262**	**822**	**7,084**	**5,738**	**835**	**6,573**	**511**	**8**
EXPENSES								
Salaries	3,291		3,291	3,078		3,078	213	7
Benefits	1,083		1,083	1,188		1,188	(105)	(9)
Scholarships and fellowships	33		33	30		30	3	10
Utilities	41		41	39		39	2	5
Supplies and materials	814		814	730		730	84	12
Depreciation	349		349	343		343	6	2
Interest expense		103	103		111	111	(8)	(7)
Professional and purchased services	521		521	443		443	78	18
Subaward expenses	174		174	161		161	13	8
Other expenses	334		334	362	3	365	(31)	(8)
Expenses associated with core activities	**6,640**	**103**	**6,743**	**6,374**	**114**	**6,488**	**255**	**4**
Income (loss) from core activities	**(378)**	**719**	**341**	**(636)**	**721**	**85**	**256**	**301**
OTHER CHANGES IN NET POSITION								
Capital gifts and grants		165	165		33	33	132	400
Changes in payable due to University		35	35		36	36	(1)	(3)
Capital support to University		(12)	(12)		(8)	(8)	(4)	(50)
Other changes in net position		**188**	**188**		**61**	**61**	**127**	**208**
Increase (decrease) in net position	**($378)**	**$907**	**$529**	**($636)**	**$782**	**$146**	**$383**	**262%**
NET POSITION								
Beginning of year, as previously reported			703			(629)	1,332	212
Cumulative effect of change in accounting principle						1,186	(1,186)	(100)
Beginning of year, as restated			703			557	146	26
End of year			**$1,232**			**$703**	**$529**	**75%**

The following sections present more information on revenues, expenses and changes in net position associated with UCSF's core activities.

Revenues Supporting Core Activities

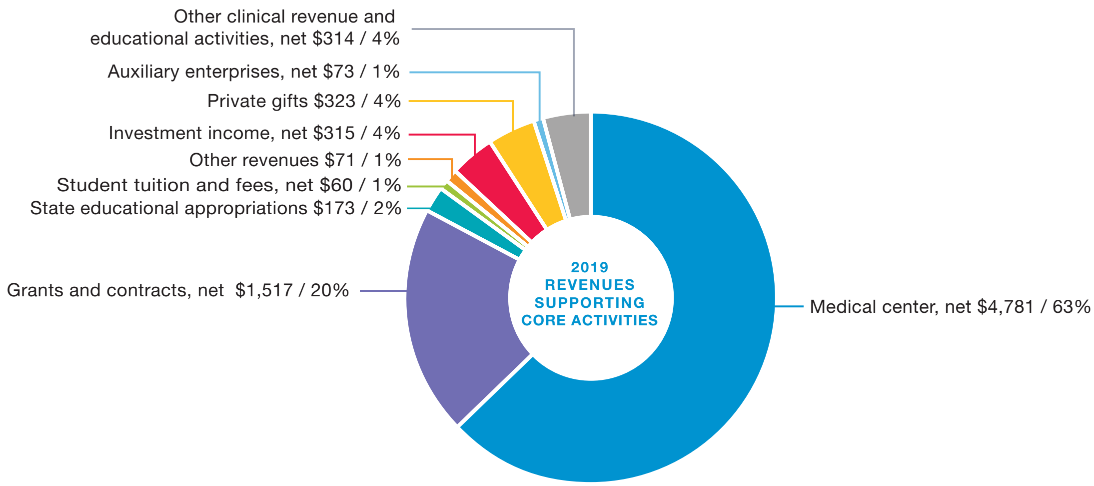
Revenues supporting UCSF's core activities, including those classified as nonoperating revenues were $7.6 billion, $7.1 billion and $6.6 billion in 2019, 2018 and 2017, respectively. These diversified sources of revenue increased by $543 million, or 8 percent in 2019 and $511 million, or 8 percent in 2018.

Revenues in the various categories for fiscal years 2019, 2018 and 2017 are as follows:



A major financial strength of UCSF is its diverse source of revenues, including student fees, federally sponsored grants and contracts, patient revenues, private and local government support, the State of California, and self-supporting enterprises. The variety of fund sources remains essential to our success over the past several years.

Categories of both operating and nonoperating revenue that supported UCSF's core activities in 2019 are as follows:



shown in millions of dollars

Student tuition and fees, net

Net student tuition and fees were $60 million, $58 million and $59 million in 2019, 2018 and 2017, respectively. Scholarship allowances or financial aid, are the difference between the stated charge for tuition and fees and the amount that is paid by students and third parties on behalf of students. Scholarship allowances, netted against student tuition fees, were $42 million, $41 million and $37 million in 2019, 2018 and 2017, respectively. Student tuition and fees, net of scholarship allowances, remained fairly consistent over the last several years.

Total primary curriculum enrollment is as follows:

	2019	2018	2017
STUDENTS			
Graduate academic programs:			
Ph.D. programs	821	811	779
Masters programs	566	563	198
Graduate certificate programs	114	75	43
Graduate academic programs	**1,501**	**1,449**	**1,020**
Graduate professional students	1,697	1,680	2,086
Total students	**3,198**	**3,129**	**3,106**
TRAINEES			
Postdoctoral scholars	1,180	1,101	1,081
Residents	1,659	1,604	1,600
Total trainees	**2,839**	**2,705**	**2,681**
Total students and trainees	**6,037**	**5,834**	**5,787**

In 2019, enrollment grew by 3.5 percent and in 2018 enrollment grew by 1 percent. Certain resident and nonresident graduate students experienced increases in mandatory tuition and fees in 2018. Professional degree supplemental tuition varies by discipline; certain increases were approved for 2019, 2018 and 2017.

State educational appropriations

Educational appropriations from the state of California were $173 million, $150 million, and $198 million in 2019, 2018 and 2017, respectively. State educational appropriations increased in 2019 by $23 million, or 15 percent compared to 2018 and decreased in 2018 by $48 million, or 24 percent compared to 2017. Appropriations are used to support the educational mission, including services provided by the University of California Office of the President. The amount of appropriation income received by UCSF fluctuates based on the negotiations between the Office of the President and the state of California. The decrease in 2018 is attribute to funding model change where the state now funds the Office of the President separately from campuses.

Grants and contracts, net

Revenue from federal, state, private and local government grants and contracts, including an overall facilities and administration cost recovery of $279 million, $260 million and $253 million in 2019, 2018 and 2017, respectively were $1.5 billion, $1.5 billion and $1.4 billion in 2019, 2018 and 2017, respectively. Grants and contracts, net revenue consist of the following:

(in millions of dollars)				Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	2019	2018	2017	$ Change	% Change	$ Change	% Change
Federal	$771	$736	$720	$35	5%	$16	2%
State	91	98	72	(7)	(7)	26	36
Private	428	435	407	(7)	(2)	28	7
Local	227	194	184	33	17	10	5
Grants and contracts, net	**$1,517**	**$1,463**	**$1,383**	**$54**	**4%**	**$80**	**6%**

Details on specific grant and contract revenues for 2019 are as follows:

- Federal grants and contracts revenue increased $35 million or 5 percent, primarily due to new awards and work performed on significant awards received in prior years.
- State grants and contracts revenue decreased $7 million, or 7 percent is primarily due to $16 million one-time funding for tobacco research received in 2018.
- Private grants and contracts revenue decreased $7 million or 2 percent, primarily due to decrease funding from local affiliation agreement and private foundations.
- Facilities and administrative costs of federally sponsored programs are recovered at cost reimbursement rates negotiated with UCSF's federal cognizant agency, the U.S. Department of Health and Human Services. For the fiscal year ended June 30, 2019, the facilities and administrative cost recovery included $187 million from federally sponsored programs and $92 million from other sponsors.

Details on specific grant and contract revenues for 2018 are as follows:

- Federal grants and contracts revenue increased $16 million or 2 percent, primarily due to new awards and work performed on significant awards received in prior years.
- State grants and contracts revenue increased $26 million, or 36 percent, is directly attributable to $16 million one-time funding for tobacco research combined with increases from California Department of Public Health and California Institute for Regenerative Medicine.
- Private grants and contracts revenue increased $38 million or 6 percent, primarily due to increase funding from local affiliation agreement and private foundations.
- Facilities and administrative costs of federally sponsored programs are recovered at cost reimbursement rates negotiated with UCSF's federal cognizant agency, the U.S. Department of Health and Human Services. For the fiscal year ended June 30, 2018, the facilities and administrative cost recovery included $172 million from federally sponsored programs and $88 million from other sponsors.

Medical center, net

UCSF Health provides basic, moderate and highly complex care, including transplants, neurosurgery and cancer treatment. Most patients receiving basic and moderate acute care live relatively close to a UCSF Health facility. In contrast, patients receiving highly complex care may come from greater distances.

Total medical center revenues, net of allowances, increased $454 million, or 10 percent, to $4.8 billion in 2019 from $4.3 billion in 2018 and increased $421 million, or 11 percent from $3.9 billion in 2017. Increase in 2019 is attributable to growth in patient volumes, primarily outpatient, improvements in reimbursements rates, Medi-Cal supplemental payments and specialty pharmacy revenue. The increase in 2018 is attributable to growth in patient volumes, primary outpatient, improvements in reimbursements rates and overall patient acuity levels and prior year Medicare cost report settlements.

The table below summarizes the revenue sources of the medical center:

(in millions of dollars)				Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	2019	2018	2017	$ Change	% Change	$ Change	% Change
Medicare	$665	$612	$591	$53	9%	$21	4%
Medi-Cal	581	563	565	18	3	(2)	0
Contracts	3,219	2,913	2,544	306	11	369	15
County/uninsured/self-pay	65	68	48	(3)	(4)	20	42
Net patient service revenue	**4,530**	**4,156**	**3,748**	**374**	**9**	**408**	**11**
Other revenue	251	171	158	80	47	13	8
UCSF Health, net	**$4,781**	**$4,327**	**$3,906**	**$454**	**10%**	**$421**	**11%**

Details on the medical center revenue sources for 2019 are as follows:

- Revenue for Medicare beneficiaries increased $53 million, or 9 percent, partially due to an increase of inpatient volume compared with 2018. Medicare payments to medical center take many forms. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. In patient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. Medicare reimburses hospitals for covered outpatient services rendered to its beneficiaries by way of an outpatient prospective payment system based on ambulatory payment classifications.

Patient Care

Advancing a Cure for Sickle Cell Disease

Sickle cell disease affects millions, with 30,000 infants born worldwide with a genetic disease that warps the shape of their red blood cells which fail to deliver life-giving oxygen, and causes severe episodes of pain and swelling, organ damage, and delayed growth. While current treatment methods focus primarily on preventing and reducing complications, doctors at UCSF Benioff Children's Hospitals, which offers the largest and most comprehensive sickle cell program in the western United States, are advancing clinical trials to use new protocols for bone marrow transplantation to improve the technique for sickle cell disease using unmatched donors, and employ CRISPR gene editing technology to use a person's own stem cells to correct the gene, potentially leading to a cure.

Mark Walters, MD, (left) pediatric hematologist and oncologist and David Martin, MD, leading several clinical trials aimed at finding a cure.

Photo by Barbara Ries

- UCSF Health are reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. UCSF Health classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. UCSF Health has received final notices from the Medicare fiscal intermediary through June 30, 2009, except for 2004 and 2005, which is currently under review, and through June 30, 2015 for BCHO. The fiscal intermediary is in the process of conducting their audits of the subsequent cost reports. The results of these audits have yet to be finalized and any amounts due to or from Medicare have not been determined. Estimated receivables and payables related to all open cost reporting periods are included in the statements of net position as third-party payor settlements. UCSF Health revenue includes loss contingencies related to these open cost-report issues, as required by generally accepted accounting principles.
- UCSF Health receives most of its net patient service revenue from contracts with commercial health maintenance organizations and preferred provider organizations, which usually reimburse UCSF Health at contracted discount or per-diem rates. Net revenue earned on commercial contracts increased $306 million, or 11 percent, representing about 71 percent of total net patient service revenue in 2019, compared with 70 percent in 2018.
- Other revenues increased $80 million, or 47 percent, and consist of revenues generated through non-patient care activities, such as pharmacy, cafeteria and rebates.

Other clinical revenue and educational activities, net

Other clinical revenue and educational activities decreased $2 million, or 1 percent, from $316 million in 2018 to $314 million in 2019 and is comprised of third-party affiliation agreements, patient services performed by non-medical center educational departments, dental clinic revenue, laboratory service fees and continuing education. The decrease is primarily due to professional fees associated with affiliation contract revenues.

Auxiliary enterprises, net

Auxiliary enterprises increased $4 million, or 6 percent, from $69 million in 2018 to $73 million in 2019 and consists of housing, parking, permits and recreation program revenues. The increase is primarily attributable to increased parking permits revenue as well as increased housing rent fees.

Private gifts, net

Gifts are generally restricted to uses designated by the donor for research, instruction or institutional support. Private gifts are provided directly to UCSF or the BCHO Foundation from donors, or are administered and transferred to UCSF by the Foundation to UCSF or BCHO Foundation. The increase of $19 million, or 6 percent, in 2019 compared to 2018, is primarily attributed to private gifts transferred to UCSF campus from the Foundation and to a lesser extent, gifts received directly to the BCHO Foundation designated for research.

Investment income, net

Investment income, net of investment expenses includes dividend and interest income from the earnings of STIP, TRIP, expendable endowment income from the general endowment pool (GEP) and BCHO Foundation investments as well as adjustments for fair market value of investment holdings. The Regents utilize asset allocation strategies intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. Investment income, net increased $70 million, or 29 percent in 2019 compared with 2018, primarily due to increases in the fair market value of the GEP.

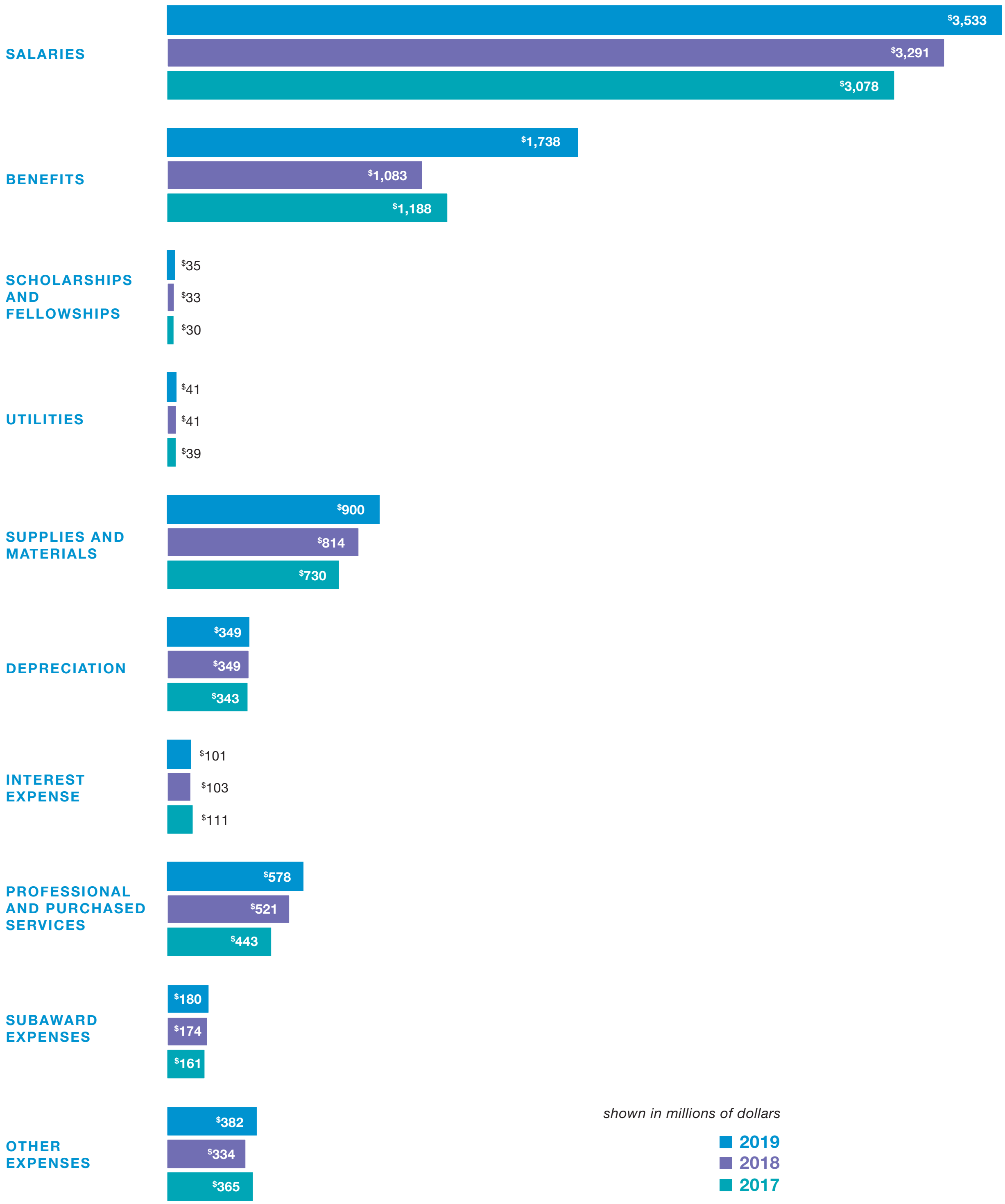
Other revenues

Other revenues consist of non-educational sales and services representing revenues received from a variety of sources including federal financing appropriations, patent income and state financing appropriations. Other revenues decreased $81 million, or 53 percent, compared with 2018, primarily due to a one-time real estate transaction in 2018. In 2018, other revenues increased $49 million, or 48 percent compared with 2017 primarily due to a one-time real estate transaction.

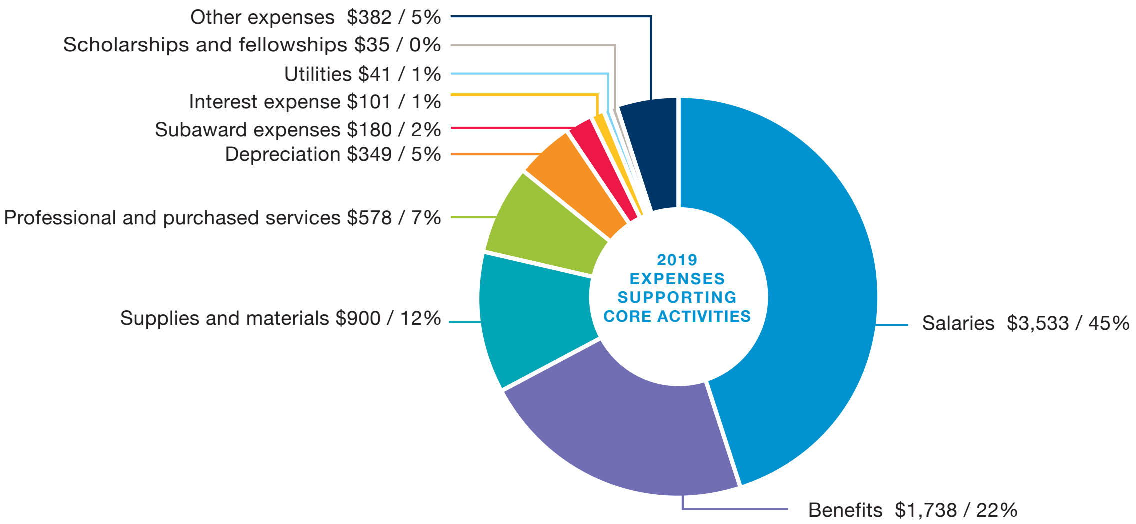
Expenses Associated with Supporting Core Activities

Expenses associated with UCSF's core activities, including those classified as nonoperating expenses, were $7.8 billion, $6.7 billion and $6.5 billion in 2019, 2018 and 2017, respectively. Expenses increased in 2019 by $1.1 billion, or 16 percent, and in 2018 by $255 million, or 4%, primarily due to the overall growth of UCSF's operations.

Expenses in the various categories for fiscal years 2019, 2018, and 2017 are as follows:



Operating and nonoperating expenses associated with supporting UCSF's core activities in 2019 are as follows:



shown in millions of dollars

Salaries and wages

Salaries account for 45 percent of UCSF's total expenses and increased $242 million, or 7 percent from $3.3 billion in 2018 to $3.5 billion in 2019, resulting both from employee growth and salary increases. The significant increase in salaries is expected as increases in revenues from grants and contracts for research and patient service continues to grow. Additionally, the salaries category includes UCSF Health temporary employees who do not receive benefits.

Education

Addressing the Unique Needs of the Homeless Population

At UCSF, our commitment to improving the health and wellbeing of our most vulnerable populations, including the homeless, is unwavering. Poverty, racism and a lack of access to healthcare weaken the body and spirit and have a devastating on health as witnessed everyday on the streets of San Francisco and in our larger community. Now in its 28th year, UCSF provides an elective course on Homeless Health Issues that not only seeks the truth behind the contributors to homelessness and identification of the unique needs of the population, but also teaches future doctors, nurses and pharmacists how they can advocate for systemic changes and become better health care providers in a multi-disciplinary community of care.

Details on salaries expense are as follows:

- Campus salaries increased $112 million, or 7 percent, driven primarily by salary increases for faculty of $67 million, non-represented staff of $18 million, non-faculty academic of $15 million and other employees expense of $12 million.
- UCSF Health salaries increased $130 million, or 8 percent, driven primarily by salary increases for represented employee salaries of $72 million, non-represented staff of $17 million, temporary staff of $13 million and other employees expense of $28 million.

Benefits

In 2019, benefits were 49 percent of salaries compared to 33 percent in 2018 and 39 percent in 2017, and represent 22 percent, 16 percent and 18 percent in 2019, 2018 and 2017, respectively, of UCSF's total expenses. Benefits increased $655 million, or 60 percent, compared with 2018 and decreased $105 million, or 9 percent, compared with 2017 and consist of the following:

(in millions of dollars)	Campus			UCSF Health			Total			Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	2019	2018	2017	2019	2018	2017	2019	2018	2017	$ Change	% Change	$ Change	% Change
UC Retirement Plan	$403	$118	$160	$493	$193	$225	$896	$311	$385	$585	188%	($74)	(19)%
Retiree health benefits	109	98	125	170	150	176	279	248	301	31	13	(53)	(18)
Health, dental and vision	149	142	135	178	159	153	327	301	288	26	9	13	5
Social Security and Medicare	92	87	80	103	98	84	195	185	164	10	5	21	13
Workers' compensation and other	12	13	15	29	25	35	41	38	50	3	8	(12)	(24)
Benefits	**$765**	**$458**	**$515**	**$973**	**$625**	**$673**	**$1,738**	**$1,083**	**$1,188**	**$655**	**60%**	**($105)**	**(9)%**

Details on benefit costs are as follows:

- The University administers the University of California Retirement Plan (UCRP) on behalf of UCSF. UCSF and employees contribute to UCRP, as determined annually pursuant to The Regents' funding policy and are based on recommendations of the consulting actuary. The UCRP pension expense includes the employer contribution to the UCRP pension and a supplemental amount assessed to UCSF starting in fiscal year 2012 to cover the underfunded portion of the UCRP liability. The UCRP rate remained constant at 14 percent for 2019, 2018, and 2017, but the UCRP supplemental increased from 1.19 percent in 2017 to 1.3 percent in 2018. Effective May 2018, the assessment rate was split into principal and interest. As of May 2018, the principal for all sources of covered compensation was 1.07 percent and interest assessed was .2 percent. Pension expense increased by $585 or 188 percent in 2019. Pension expense decreased by $74 million, or 19 percent in 2018. The increase in 2019 is primarily due to increased employees and salaries.
- Retiree health benefits increased $31 million, or 13 percent in 2019 and retiree health benefits decreased $53 million, or 18 percent in 2018 and are funded separately by an assessment against covered compensation. The increase is primarily attributed to increased salaries.
- Health, dental and vision benefits increased $26 million, or 9 percent in 2019, with $327 million in 2019 and $301 million in 2018 primarily due to benefit rate increases.

Scholarships and fellowships

UCSF places a high priority on student financial aid as a part of its commitment to access and affordability. Scholarship allowances represent UCSF fee waivers and are reported as an offset to student tuition and fee revenue, not as an operating expense. Scholarships and fellowships represent payments of financial aid made directly to students and are reported as operating expenses.

Scholarships and fellowships increased $2 million, or 6 percent, to $35 million in 2019 compared with $33 million in 2018, and increased $3 million, or 10 percent compared with $30 million in 2017. In addition, the scholarship allowances recorded as an offset to tuition was $42 million, $41 million, $37 million for 2019, 2018 and 2017, respectively.

Supplies and materials

Supplies and materials increased $86 million, or 11 percent, to $900 million in 2019 compared with $814 million in 2018 and increased $84 million or 12 percent in 2018 compared with $730 million in 2017, primarily attributable to higher patient volumes and additional supplies needed in caring for these patients.

Depreciation

Depreciation was $349 million in both 2019 and 2018 and increased $6 million, or 2 percent compared with $343 million in 2017. Depreciation remained unchanged in 2019 due to ongoing asset capitalizations offset by large assets becoming fully depreciated during the year. The depreciation increase in 2018 was due to the completion of the Benioff Children's Hospital Oakland Outpatient Center and new equipment placed in service during 2018.

Interest expense

Interest expense decreased $2 million, or 2 percent, to $101 million in 2019 compared with $103 million in 2018 and decreased $8 million, or 7 percent compared with $111 million in 2017. The decrease is primarily due to interest being capitalized during construction of Precision Cancer Medicine Building at Mission Bay.

Professional and purchased services

Professional and purchased services include cost from professional fees and consultants. Professional and purchased services increased by $57 million or 11 percent, to $578 million in 2019 compared with $521 million in 2018 and increased $78 million, or 18 percent, compared to $443 million in 2017 due to purchased services for UCSF Health.

Subaward expenses

Subaward expenses are costs incurred by subcontractors who contribute to the overall completion of an award's scientific deliverables. Subaward expenses increased by $6 million or 3 percent, to $180 million in 2019 compared with $174 million in 2018 and increased $13 million or 8 percent, compared to $161 million in 2017. These increases are directly correlated with UCSF's continued growth in research activities.

Other expenses

Other expenses consist of a variety of expense categories, including travel, rent, insurance, legal settlements and repairs and maintenance. Other expenses increased $48 million, or 14 percent, to $382 million in 2019 compared with $334 million in 2018 and decreased $31 million, or 8 percent compared with $365 million in 2017.

Operating losses

In accordance with the GASB's reporting standards, operating losses were $965 million, $378 million and $636 million in 2019, 2018 and 2017, respectively. The operating losses in 2019, 2018 and 2017 were offset by $755 million, $719 million and $721 million, respectively, of net nonoperating revenue that supports core operating activities of UCSF. Expenses exceeded revenue available to support core activities by $210 million in 2019. Revenue exceeded expenses associated with core activities in 2018 by $341 million and $85 million in 2017.

Net appreciation or depreciation in fair value of investments

Net appreciation or depreciation in the fair value of investments, are noncash transactions and, therefore, are not available to support operating expenses. In 2019, 2018 and 2017, the UCSF recognized net appreciation in the fair value of investments of $155 million, net appreciation of $99 million and net appreciation of $190 million, respectively. UCSF's portfolio experienced positive returns in the equity markets in 2019, 2018, and 2017.

Other nonoperating activities

In 2018, UCSF was gifted a piece of property, land and building, located at 2130 Post Street (Post Street) in exchange for its property at 3333 California Street (Laurel Heights), land only. Post Street property was measured utilizing the fair value as appraised at $61 million at the time of the transaction. The fair value of Laurel Heights was deemed as not determinable within reasonable limits, therefore, Laurel Heights was measured utilizing the recorded amount of book value for $18 million at the original date of acquisition. The excess value of the Post Street property of $43 million was intended to be a gift contribution to the UC Regents to help support UCSF faculty and student housing. UCSF recognized $61 million for Post Street and is included in capital assets and the excess of $43 million is recognized and included in capital gifts on the statement of net position and statement of revenues, expenses, and changes in net position, respectively.

In connection with the transaction, the Laurel Heights property that was exchanged was previously a ground lease determined to be an operating lease, wherein UCSF was the lessor. The ground lease included an upfront cash consideration paid to UCSF of $89 million which was previously recorded as unearned revenue and recognized over the 99 year lease contract. As part of the gift and exchange transaction, the ground lease was transferred and relieved UCSF of its obligation related to the lease. As there is no obligation to be performed by UCSF, the remaining unearned revenue of $63 million was recognized and included in other nonoperating revenue in the statement of revenues, expenses, and changes in net position.

Other changes in net position

Similar to nonoperating activities, other changes in net position are also available to support UCSF's operating expenses in the current year. Other changes in net position decreased $139 million, or 74 percent, to $49 million in 2019 compared with $188 million in 2018 and increased $127 million, or 208 percent compared with $61 million in 2017. The decrease in 2019 is primarily due to capital gifts and grants as one-time large capital gifts were received in 2018.

Capital gifts and grants may only be used for the purchase or construction of specified capital assets. UCSF receives capital gifts directly as well as receiving capital gift transfers from the Foundation. These funds are required to pay for specific facilities. Capital gifts and grants decreased $106 million, or 64 percent, to $59 million in 2019 compared to $165 million in 2018 and increased $132 million, or 400 percent compared with $33 million in 2017. The decrease in 2019 is primarily attributable to significant land and building gifts at Post Street, 3rd Street and North Point received to support UCSF's missions in 2018.

UCSF Cash Flows

The statements of cash flows present information about the significant sources and uses of cash. A summary comparison of cash flows for 2019, 2018 and 2017 is as follows:

(in millions of dollars)				Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	2019	2018	2017	$ Change	% Change	$ Change	% Change
Cash received from operations	$7,758	$6,163	$5,694	$1,595	26%	$469	8%
Cash payments for operations	(7,554)	(6,126)	(5,747)	(1,428)	(23)	(379)	(7)
Net cash provided (used) by operating activities	**204**	**37**	**(53)**	**167**	**451**	**90**	**170**
Net cash provided by noncapital financing activities	514	532	471	(18)	(3)	61	13
Net cash provided (used) by capital and related financing activities	(798)	261	(117)	(1,059)	(406)	378	323
Net cash provided (used) by investing activities	128	(808)	(272)	936	116	(536)	(197)
Net increase in cash and cash equivalents	**48**	**22**	**29**	**26**	**118**	**(7)**	**(24)**
Cash and cash equivalents, beginning of year	1,113	1,091	1,062	22	2	29	3
Cash and cash equivalents, end of year	**$1,161**	**$1,113**	**$1,091**	**$48**	**4%**	**$22**	**2%**

Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts managed by the University on a daily basis. Details on cash flows for 2019 are as follows:

- Cash of $204 million was provided by operating activities and is primarily attributable to higher patient volumes associated with the continued operations of UCSF Health and strong funding from grants and contracts.
- Cash of $514 million was provided by noncapital financing activities. As defined by GASB, noncapital financing activities include state educational appropriations of $173 million and private gifts of $323 million received to support operational, rather than capital, purposes.
- Cash of $798 million was used for capital and related financing activities. Of this, proceeds from issuance of debt of $12 million, capital gifts and grants of $59 million, and state and capital appropriations of $26 million was offset by $895 million used for purchase of capital assets, debt service, refinancing and other.
- Cash of $128 million was provided by investing activities. Investing activities includes investment income of $169 million consisting of endowment income, STIP investment income and TRIP investment income. Investing activities also includes net addition of $386 million from trustees.

UCSF Foundation Financial Position

The Foundation's condensed statements of net position provide information on the organization's current financial condition. Over time, increases or decreases in net position provide one indicator of the improvement or erosion of the Foundation's financial health when considered with other nonfinancial information.

In 2015, the Foundation's Board of Overseers formed the UCSF Foundation Investment Company (the "Company"), a nonprofit organization, to manage the Foundation's Endowed Investment Pool (EIP). The Company commenced operations in 2016. The 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 Company, and appoints the Board. Under GASB standards, the Company is presented as a blended component in the Foundation financial statements.

In 2015, the Foundation's Board of Overseers formed BVSF Holdings, Inc. (BVSF), a legally separate California corporation, to acquire, hold and manage certain interests in real estate assets held through a limited partnership. The Foundation is the sole shareholder of BVSF. The business and affairs of BVSF are managed by a board of directors, the majority of whom are independent. The fair value of the Foundation's investment in BVSF was $33 million as of June 30, 2017. The Foundation sold BVSF during 2018.

The table below summarizes the Foundation's net position, and sections following the table provide additional details.

(in millions of dollars)				Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	2019	2018	2017	$ Change	% Change	$ Change	% Change
ASSETS							
Cash and investments	$2,195	$2,038	$1,720	$157	8%	$318	18%
Pledges receivable, net	90	138	65	(48)	(35)	73	112
Other assets	21	13	15	8	62	(2)	(13)
Total assets	**2,306**	**2,189**	**1,800**	**117**	**5**	**389**	**22**
LIABILITIES							
Accounts payable and other liabilities	30	33	41	(3)	(9)	(8)	(20)
Funds held for others	264	254	232	10	4	22	9
Obligations under life income agreements	25	23	21	2	9	2	10
Total liabilities	**319**	**310**	**294**	**9**	**3**	**16**	**5**
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows from irrevocable split interest agreement	31	29	22	2	7	7	32
Total deferred inflows of resources	**31**	**29**	**22**	**2**	**7**	**7**	**32**
NET POSITION							
Restricted, nonexpendable	836	720	608	116	16	112	18
Restricted, expendable	1,119	1,130	876	(11)	(1)	254	29
Unrestricted	1			1	100		
Total net position	**$1,956**	**$1,850**	**$1,484**	**$106**	**6%**	**$366**	**25%**

Assets

The Foundation's assets increased $117 million, or 5 percent, at $2.3 billion in 2019; this compares to an increase of $389 million, or 22 percent from 2017 to 2018. Assets comprise 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 million, or 8 percent, to $2.2 billion in 2019 from $2.0 billion in 2018 compared to an increase of $318 million, or 18 percent from 2017. The increase is primarily the result of cash flows from contributions and other revenues, additions to permanent endowments, and proceeds from the sale of donated securities and disbursements to UCSF, and nonoperating income. Cash and investment balances for all years include BCHO'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 million as of June 30, 2019 decreased $48 million from $138 million in 2018. New pledges totaling $43 million were offset by pledge payments and other changes of $92 million; this net decrease was offset by a net decrease in the allowance for uncollectible pledges and discount on multi-year pledges of $1 million. Pledge receivable balances of $138 million as of June 30, 2018 increased $73 million from 2017. New pledges totaling $139 million were offset by pledge payments and other changes of $61 million. This net increase was offset by a net increase in the allowance for uncollectible pledges and discount on multi-year pledges of $3 million.

Other assets increased $8 million from $13 million in 2018 to $21 million in 2019, and decreased $2 million from $15 million in 2017 to $13 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 million of the increase in other assets from 2018 to 2019, and $1 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.

Liabilities

Foundation's liabilities increased $9 million, or 3 percent, to $319 million in 2019 from $310 million in 2018 compared to an increase of $16 million, or 5 percent from 2017 to 2018 and include accounts payable and other liabilities, funds held for others and obligations under life income agreements.

The increase is attributable to funds held for external pool participants. These balances increased $10 million and $22 million from 2018 to 2019 and 2017 to 2018, respectively, reflecting the increased market value attributable to external pool participants, and additions to the EIP by external pool participants.

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.

Change 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 $106 million, or 6 percent, and is $2.0 billion at 2019 and $1.9 billion at 2018 compared to an increase of $366 million, or 25 percent from 2017. Net position is classified and reported based on the presence, or absence, of donor-imposed restrictions.

Restricted nonexpendable net position includes the corpus of the Foundation's permanent endowments. At $836 million, $720 million and $608 million, restricted nonexpendable net position comprises 43 percent, 39 percent and 41 percent of total net position for 2019, 2018 and 2017, respectively. Increases of $116 million, or 16 percent from 2018 to 2019 and $112 million, or 18 percent 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. The 2017 restricted, nonexpendable net position balances have been restated and the fair value of trust resources that are not expendable upon maturity are reported as deferred inflows of resources under GASB 81.

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 $1.1 billion, $1.1 billion and $876 million, restricted expendable net position comprises 57 percent, 61 percent and 59 percent of total net position for 2019, 2018 and 2017, respectively. The decrease of $11 million from 2018 to 2019 and increase of $254 million from 2017 to 2018 is primarily due to receipt of current use gifts and gifts and other funds intended for quasi-endowments, and investment income, offset by distributions to UCSF and change in fair market value. The 2017 restricted, expendable net position balances have been restated and the fair value of trust resources that are expendable upon maturity are reported as deferred inflows of resources under GASB 81.

UCSF Foundation Results of Operations

The Foundation's condensed statements of revenues, expenses and changes in net position present the Foundation's operating and nonoperating results and other changes in net position. The table below summarizes the Foundation's results, and the sections following the table provide additional details.

(in millions of dollars)				Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	2019	2018	2017	$ Change	% Change	$ Change	% Change
OPERATING REVENUES							
Contributions	$251	$356	$156	($105)	(29%)	$200	128%
Total operating revenues	**251**	**356**	**156**	**(105)**	**(29)**	**200**	**128**
OPERATING EXPENSES							
Distributions to UCSF and other operating expenses	340	294	235	46	16	59	25
Total operating expenses	**340**	**294**	**235**	**46**	**16**	**59**	**25**
Income (loss) from operations	**(89)**	**62**	**(79)**	**(151)**	**(244)**	**141**	**178**
NONOPERATING INCOME							
Investment income, net of investment expense	15	29	28	(14)	(48)	1	4
Net increase (decrease) in fair value of investments	66	170	127	(104)	(61)	43	34
Total nonoperating income (loss)	**81**	**199**	**155**	**(118)**	**(59)**	**44**	**28**
Net income (loss) before other changes in net position	**(8)**	**261**	**76**	**(269)**	**(103)**	**185**	**243**
OTHER CHANGES IN NET POSITION							
Additions to permanent endowments	114	104	42	10	10	62	148
Increase (decrease) in net position	**106**	**365**	**118**	**(259)**	**(71)**	**247**	**209**
NET POSITION							
Beginning of year	1,850	1,503	1,382	347	23	121	9
Cumulative effect of accounting change		(18)	(16)	18	100	(2)	(13)
Beginning of year, as restated	1,850	1,485	1,366	365	25	119	9
End of year	**$1,956**	**$1,850**	**$1,484**	**$106**	**6%**	**$366**	**25%**

Operating revenues

Operating revenues, consisting of income from fundraising activities, including gifts for current use and quasi-endowments, decreased $105 million, or 29 percent, to $251 million in 2019 from $356 million in 2018 compared to an increase of $200 million, or 128 percent from $156 million in 2017. Operating revenues fluctuate based on results of fundraising activities conducted throughout the year. Contributions result from donor interests, long-term donor cultivation and specific appeals for immediate needs. Timing and amounts 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 UCSF's mission of research, education, and patient care with notable contributions to UCSF Helen Diller Family Comprehensive Cancer Center, UCSF Precision Cancer Medicine Building, Center for Vision Neuroscience at Mission Bay, UCSF Benioff Children's Hospital Oakland, and Brain Tumor Research Center.

For 2018, significant gifts and pledges were recognized in support of UCSF's mission of research, education, and patient care with notable contributions to ImmunoX Initiative, Computational Health Sciences Institute, Center for Vision Neurosciences, Weill Institute for Neurosciences, and Dolby Family Center for Mood Disorders.

For 2017, significant gifts and pledges were recognized in support of UCSF's mission of research, education, and patient care with notable contributions for Global Health Institute and Campaign for UCSF Medical Center.

Operating expenses

Operating expenses increased $46 million, or 16 percent in 2019 to $340 million from $294 million in 2018. Operating expenses increased $59 million, or 25 percent in 2018 from $235 million in 2017. Distributions to UCSF are based on UCSF's programmatic needs, subject to gift restrictions and the amount available in any particular year. They include transfers of gifts intended to fund capital projects, as well as gifts for other purposes and endowment income.

Research

Developing a 'Liquid Biopsy' to Help Identify Tumor Treatment Effectiveness in Children

UCSF Benioff Children's Hospitals and Children's National Health System are leading the way in research to develop a blood test 'biopsy' for children with brain tumors to provide a simple, safe way to see if treatment is working before changes are even identified on scans. A recently published research study on the work reports encouraging results for the 'liquid biopsy.' Analyzing molecules in the blood or the cerebrospinal fluid (which bathes the brain and spinal cord) for the tumor's specific genetic signature allows for a less invasive, less risky approach to be taken instead of using the standard brain biopsy method of drilling a small hole through the skull to extract a sample of the tumor itself.

Distribution to UCSF for spending varied year over year. The table below illustrate how distributions from the Foundation to UCSF for spending changed for the fiscal years ended June 30, 2019, 2018 and 2017:

(in millions of dollars)				Increase (decrease) from 2018 to 2019		Increase (decrease) from 2017 to 2018	
	2019	2018	2017	$ Change	% Change	$ Change	% Change
CAPITAL PROJECTS							
Mission Bay Block 33 Center for Vision Neuroscience Building	$21	$29		($8)	(28%)	$29	100%
Mission Bay Hospital Complex	15		$12	15	100	(12)	(100)
Mission Bay Precision Medicine Cancer Building	11	16		(5)	(31)	16	100
Zuckerberg San Francisco General Academic and Research Building	2			2	100		
Sandler Neurosciences Conference Center	2			2	100		
2130 Third Street - Child, Teen & Family Center and Department of Psychiatry		1		(1)	(100)	1	100
Mission Bay Block 23A Weil Neurosciences Building	3			3	100		
Total capital projects	**54**	**46**	**12**	**8**	**17**	**34**	**283**
OTHER NONCAPITAL PROJECTS							
Research / faculty support	163	160	129	3	2	31	24
Institutional support	64	46	42	18	39	4	10
Instruction	17	11	17	6	55	(6)	(35)
Medical Center / Teaching Hospital	23	5	16	18	360	(11)	(69)
Other	17	18	13	(1)	(6)	5	38
Total other noncapital projects	**284**	**240**	**217**	**44**	**18**	**23**	**11**
Total distributions to UCSF for spending	**$338**	**$286**	**$229**	**$52**	**18%**	**$57**	**25%**

Patient Care

Establishing a New Standard of Care for Spinal Cord Injuries

A bodysurfer who went for a wave and didn't come back up was the first patient to undergo an innovative new protocol for treating severe spine injuries at Zuckerberg San Francisco General Hospital and Trauma Center (ZSFG). Fracturing two vertebrae in his neck from hyperextension, he has been treated using a new protocol in place at ZSFG that advances both revised evaluations and new personalized treatments that prioritize speedy evaluations and individually boosting blood pressure instead of artificially raising spinal blood pressure exactly the same way for everyone. Now a standard of care, the protocol is spurring quicker recoveries and dispelling the commonly held belief that once injured, the spinal cord is not coming back.

Nonoperating income

Nonoperating income includes the results of all investment activities. Endowment investment activities are the source for endowment payout.

Net investment income consists of dividends, interest and other investment income offset by investment manager fees. Net investment income decreased $14 million, or 48 percent, from $29 million in 2018 to $15 million in 2019; Net investment income increased $1 million or 4 percent from $28 million in 2017. Prior year amounts reflect distributions received from a 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. The real estate limited partnership and BVSF Holdings 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 million for 2019 compared to $170 million in 2018 and $127 million in 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 percent. 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.

For 2018, the Foundation's Endowed Investment Pool (EIP) return, including investment income and expense, and change in fair market value, is 9.6 percent. 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 percent, 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 $74 million, compared to $63 million and $55 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 2019 and 2018 reflects earnings on fund function endowment that were established with proceeds from the 2018 sale of the Foundation's real estate limited partnership interests.

Other changes in net position — additions to permanent endowments

The Foundation's endowment continues to grow year-over-year. For 2019, gifts to permanent increased $10 million from $104 million in 2018 to $114 million in 2019; additions to permanent endowment totaled $42 million in 2017.

The largest gifts to permanent endowments for 2019 were for UCSF Helen Diller Family Comprehensive Center, Benioff Professorships in Children's Health, Bakar Computational Health Sciences Institute, and John Douglas French Endowed Professorships.

The largest gifts to permanent endowments for 2018 were for School of Nursing Center For Physiologic Research, Benioff UCSF Professorships in Children's Health.

Looking Forward

The University of California is a world center of learning, known for generating a steady stream of talent, knowledge and social benefits, and has always been at the center of California's capacity to innovate. The excellence of its programs attracts the best students, leverages hundreds of millions of dollars in state, federal and private funding and promotes discovery of new knowledge that fuels economic growth.

The Governor signed the 2019-20 State Budget Act on June 27, 2019. State funds allocated to the University totaled $3.9 billion, which includes an increase of 7.1 percent, or $247.5 million in new ongoing support. The additional funds address general operating cost increases, increasing enrollment by 4,860 new California undergraduates above 2018-19 levels by 2020-21 and various other programs. The Budget Act also includes $215.1 million in one-time funding for various programs across the University including $143.5 million for deferred maintenance.

UCSF and the University remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the University's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation.

UCSF Health has a negative operating margin when including retirement costs that can fluctuate significantly due to actuarial estimates and market performance which can distort core operational performance. When excluding the additional retirement costs, UCSF Health has a positive operating margin although they continue to face financial and competitive challenges in their regional markets, along with the added costs and responsibilities related to their function as academic institutions. The demand for health care services and the cost of providing them continue to increase significantly. In addition to the rising costs of salaries, benefits and medical supplies faced by hospitals across the state, along with the costs of maintaining and upgrading facilities, the UCSF Health also faces additional costs associated with seismic retrofitting, new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal (California's Medicaid program), health insurance payments do not recognize the added cost of teaching in their payment to academic medical centers. The growth in costs of the publicly funded programs and health care reform will likely continue to reduce rates or limit payment growth, placing downward pressure on operating results for UCSF Health.

UCSF must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. Support for UCSF's capital program is expected to be provided from a combination of sources, including the state of California, external financing, gifts and other sources.

Additional budget information can be found at http://universityofcalifornia.edu/news/budget/welcome.html. Additional information concerning state budget matters and the state's financial condition may be found on the website of the California Department of Finance at http://www.dof.ca.gov.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by UCSF, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that UCSF expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. UCSF does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

2019 Financial Statements

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

STATEMENTS OF NET POSITION

At June 30, 2019 and 2018 *(in thousands of dollars)*

	UCSF		UCSF FOUNDATION	
	2019	2018	2019	2018
ASSETS				
Cash and cash equivalents	$1,161,466	$1,112,940	$164,863	$165,374
Short-term investments	1,671,458	1,681,786	22,401	15,526
Receivable for investments sold			15,152	7,852
Investments held by trustee	539,026	925,001		
Accounts receivable, net	1,063,354	947,799		
Pledges receivable, net	1,930	2,158	35,838	53,208
Notes and mortgages receivable, net	2,583	2,671		
Inventories	57,802	55,915		
Other current assets	157,028	147,013	683	798
Current assets	**4,654,647**	**4,875,283**	**238,937**	**242,758**
Restricted assets			220,479	231,495
Investments	2,598,184	2,015,493	1,787,585	1,625,762
Pledges receivable, net	13	3,329	54,328	85,170
Notes and mortgages receivable, net	25,372	30,224		
Capital assets, net	5,261,907	4,860,051		
Other noncurrent assets	83,195	42,070	4,935	4,168
Noncurrent assets	**7,968,671**	**6,951,167**	**2,067,327**	**1,946,595**
Total assets	**12,623,318**	**11,826,450**	**2,306,264**	**2,189,353**
DEFERRED OUTFLOWS OF RESOURCES	2,352,487	1,152,232		
LIABILITIES				
Accounts payable	436,900	354,698	419	8,779
Accrued salaries and benefits	460,981	343,047		
Obligations under life income agreements			2,476	2,717
Unearned revenue	225,078	126,162		
Current portion of long-term debt	77,964	51,203		
Funds held for others	1,119	639	3,469	2,154
Third party payor settlements, net	179,526	136,227		
Other current liabilities	150,520	214,809	28,913	24,127
Current liabilities	**1,532,088**	**1,226,785**	**35,277**	**37,777**
Federal refundable loans	30,238	29,905		
Funds held for external pool participants			260,721	252,033
Obligations under life income agreements			22,802	19,748
Long-term debt	3,334,615	3,384,308		
Due to University	812,268	722,359		
Net pension liability	3,231,079	1,759,928		
Net retiree health benefits liability	3,642,766	3,338,792		
Self insurance	19,054	18,413		
Other noncurrent liabilities	62,917	58,666	486	403
Noncurrent liabilities	**11,132,937**	**9,312,371**	**284,009**	**272,184**
Total liabilities	**12,665,025**	**10,539,156**	**319,286**	**309,961**
DEFERRED INFLOWS OF RESOURCES	1,239,434	1,207,284	31,377	28,898
NET POSITION				
Net invested in capital assets	1,828,547	1,442,747		
Restricted:				
Nonexpendable: endowments and gifts	515,063	512,120	836,001	720,293
Expendable: endowment and gifts	2,021,648	1,716,731	1,119,201	1,129,797
Expendable: other, including debt service, loans, capital projects and appropriation	474,378	1,112,438		
Unrestricted	(3,768,290)	(3,551,794)	399	404
Total net position	**$1,071,346**	**$1,232,242**	**$1,955,601**	**$1,850,494**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ended June 30, 2019 and 2018 *(in thousands of dollars)*

	UCSF		UCSF FOUNDATION	
	2019	2018	2019	2018
OPERATING REVENUES				
Student tuition and fees, net	$60,094	$57,603		
Grants and contracts, net				
Federal	770,841	735,832		
State	91,184	98,457		
Private	428,022	434,598		
Local	226,584	194,411		
Sales and services:				
Medical center, net	4,781,327	4,326,640		
Other clinical revenue and educational activities, net	314,004	316,413		
Auxiliary enterprises, net	73,442	68,845		
UCSF Foundation private gifts			$250,828	$356,039
Other operating revenues, net	25,923	29,478		
Total operating revenues	**6,771,421**	**6,262,277**	**250,828**	**356,039**
OPERATING EXPENSES				
Salaries and wages	3,532,792	3,291,489		
Benefits	1,738,272	1,083,438		
Scholarships and fellowships	35,330	33,156		
Utilities	41,333	40,508		
Supplies and materials	900,154	813,520		
Depreciation and amortization	348,858	349,096		
UCSF Foundation grants			337,159	284,776
Professional and purchased services	577,591	520,673		
Subaward expenses	179,945	173,870		
Other operating expenses	381,501	334,211	3,335	8,358
Total operating expenses	**7,735,776**	**6,639,961**	**340,494**	**293,134**
Operating income (loss)	**(964,355)**	**(377,684)**	**(89,666)**	**62,905**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	172,565	149,964		
Federal financing appropriations	22,161	22,692		
State financing appropriations	3,509	3,774		
Private gifts, net	322,656	304,465		
Investment income, net	159,642	145,557	14,805	28,866
Increase in fair value of investments	154,704	99,054	66,086	169,892
Interest expense	(100,975)	(103,268)		
Patent income	27,194	6,762		
Gain (loss) on disposal of capital assets	(3,542)	9,596		
Other nonoperating revenues (expenses)	(3,905)	79,787		
Total nonoperating revenues	**754,009**	**718,383**	**80,891**	**198,758**
Income (loss) before other changes in net position	**(210,346)**	**340,699**	**(8,775)**	**261,663**
OTHER CHANGES IN NET POSITION				
Capital gifts and contracts	59,406	164,869		
Additions to permanent endowment			113,882	104,342
Changes in allocation for pension payable to University	3,534	35,241		
Capital support to University and other	(13,490)	(11,936)		
Total other changes in net position	**49,450**	**188,174**	**113,882**	**104,342**
Increase (decrease) in net position	**(160,896)**	**528,873**	**105,107**	**366,005**
NET POSITION				
Beginning of year, as previously reported	1,232,242	704,173	1,850,494	1,502,860
Cumulative effect of change in accounting principle		(804)		(18,371)
Beginning of year, as restated	1,232,242	703,369	1,850,494	1,484,489
Net position, end of year	**$1,071,346**	**$1,232,242**	**$1,955,601**	**$1,850,494**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

STATEMENTS OF CASH FLOWS

Years ended June 30, 2019 and 2018 *(in thousands of dollars)*

	UCSF		UCSF FOUNDATION	
	2019	2018	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$59,151	$58,897		
Grants and contracts	1,523,023	1,377,829		
UCSF Health	4,827,091	4,290,500		
Educational activities	314,004	316,413		
Auxiliary enterprises	74,165	68,221		
UCSF Foundation private gifts			$238,884	$209,737
Payments to employees	(3,413,178)	(3,318,528)		
Payments to suppliers and utilities	(2,242,393)	(1,720,029)		
Payments for employee and retiree benefits	(1,862,986)	(1,054,243)		
Payments for scholarships and fellowships	(35,330)	(33,156)		
Other operating receipts (payments)	960,658	51,106	(331,729)	(291,390)
Net cash provided (used) by operating activities	**204,205**	**37,010**	**(92,845)**	**(81,653)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	172,565	149,964		
State hospital fee program		7,238		
Private gifts for endowment purposes			103,109	83,018
Other private gifts	326,200	294,693		
Receipt of patent income	27,194	6,762		
Health system support	(7,608)			
Other receipts (payments)	(3,915)	72,575	11,731	22,647
Net cash provided by noncapital financing activities	**514,436**	**531,232**	**114,840**	**105,665**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State and federal financing appropriations	25,670	26,466		
Capital gifts and grants	59,406	164,869		
Proceeds from debt issuance	11,771	962,949		
Gain (loss) from the sale of capital assets	(6,675)	20,183		
Purchase of capital assets	(747,581)	(659,676)		
Refinancing or prepayment of outstanding debt		(94,096)		
Principal paid on debt and financing obligations	(29,642)	(32,298)		
Interest paid on debt and financing obligations	(106,036)	(113,635)		
Other	(4,996)	(12,923)		
Net cash provided (used) by capital and related financing activities	**(798,083)**	**261,839**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income, net of investment expenses	169,066	154,994	14,502	29,071
Distributions from joint ventures		(4,342)		
Proceeds from sale of donated securities			66,190	92,798
Proceeds from sales and maturities of investments			290,090	572,082
Purchase of investments, net	(418,466)	(236,189)	(404,304)	(531,954)
Additions to (drawdown of) investments held by trustees	385,975	(698,903)		
Change in restricted assets		(2,694)		
Other non-operating revenues, net	(8,607)	(20,993)		
Net cash provided (used) by investing activities	**127,968**	**(808,127)**	**(33,522)**	**161,997**
Net increase (decrease) in cash and cash equivalents	**48,526**	**21,954**	**(11,527)**	**186,009**
Cash and cash equivalents, beginning of year	1,112,940	1,090,986	396,869	210,860
Cash and cash equivalents, end of year	**$1,161,466**	**$1,112,940**	**$385,342**	**$396,869**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

STATEMENTS OF CASH FLOWS *(continued)*

Years ended June 30, 2019 and 2018 *(in thousands of dollars)*

	UCSF		UCSF FOUNDATION	
	2019	2018	2019	2018
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	($964,355)	($377,684)	($89,666)	$62,905
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization expense	348,858	349,096		
Allowance for uncollectible accounts	1,694	30,342	(587)	852
Donated securities, excluding permanent endowment			(60,077)	(71,660)
Change in unamortized discount on pledges			(552)	1,907
Change in assets and liabilities:				
Accounts receivable	(95,829)	(197,274)		
Pledges receivable			49,352	(76,404)
Inventories	(1,887)	(4,497)		
Other assets	(51,140)	(24,597)		
Deferred outflows of resources	(1,201,141)	133,323		
Accounts payable	65,722	112,977		
Accrued salaries	117,934	20,501		
Retiree health and other employee benefits	1,471,151	(37,712)		
Pension benefits	397,417	(15,353)		
Deferred revenue	98,916	3,423		
Annuities payable and liabilities to life beneficiaries			3,076	3,038
Other liabilities	(14,160)	3,817	3,438	(3,373)
Deferred inflows of resources	31,025	40,648	2,171	1,082
Net cash provided (used) by operating activities	**$204,205**	**$37,010**	**($92,845)**	**($81,653)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired with a liability at year-end	$41,862	$53,868		
Capital assets acquired through capital lease at year-end	1,115	5,623		
Gifts of marketable securities			$59,754	$71,660
Noncapital financing - Permanent endowments receipt of securities			10,773	21,324
Beneficial interest in irrevocable split interest agreements			323	12
Change in fair value of interest rate swaps classified as hedging derivatives	(1,885)	(2,989)		
Debt service for, or refinancing of, lease revenue bonds:				
Amortization of deferred financing costs	966	1,017		
Amortization of bond premiums and cost of issuance write-off	(12,207)	(9,994)		

See accompanying Notes to Financial Statements

Notes to Financial Statements

Organization

The University of California ("the University") was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board ("The Regents") is appointed by the governor and approved by the state Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's basic financial statements as a component unit. Additionally, the University's financial statements, which cover ten campuses, five medical schools and medical centers, four law schools, and a statewide Division of Agricultural and Natural Resources, along with a number of other fiduciary activities, are subjected to an independent annual audit.

Financial Reporting Entity

University of California, San Francisco

The University of California, San Francisco (UCSF) was founded in 1874 and is one of the ten campuses that comprise the University. UCSF is a leading university dedicated to promoting health worldwide through advanced biomedical research, graduate-level education in the life sciences and health professions, and excellence in patient care. It consists of the schools of medicine, dentistry, nursing, and pharmacy, the graduate division (collectively, the Campus), as well as UCSF Medical Center, UCSF Faculty Clinical Practices, Langley Porter Psychiatric Hospital and Clinics, and Benioff Children's Hospital (collectively, UCSF Health). UCSF is the only campus of the University of California that is devoted exclusively to graduate and professional education and training in the health sciences.

UCSF's financial statements include the accounts of the Campus and UCSF Health. The Campus includes the Campus Facilities Improvement Association (CFIA), a legally separate, not-for-profit public benefit corporation, established for charitable and educational purposes, including facilitating the development, financing, construction and management of buildings and facilities. All members of the Board of Directors of CFIA are appointed by and can be removed by The Regents. The Regents have the authority to approve the budget for CFIA. CFIA provides services almost entirely for the benefit of The Regents on behalf of UCSF. Accordingly, CFIA is included in UCSF's financial reporting entity as a blended component unit. The operations of most student government or associated student organizations are also included in the reporting entity because UCSF has certain fiduciary responsibilities for these organizations.

The University of California system is subjected to an annual audit of the consolidated financial statements. UCSF's financial statements are included in the University of California's consolidated financial statements. The financial statements for UCSF have not been separately audited.

The University of California, San Francisco Foundation

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the Campus and the University. The University of California, San Francisco Foundation (the Foundation) was incorporated in 1982 as a not-for-profit public benefit corporation organized for the purpose of accepting and administering the full range of private contributions to UCSF. Although governed by an independent board, the Foundation is affiliated with, and its assets are dedicated for, the sole benefit of UCSF. The financial activities of the separately incorporated Foundation are not recorded at UCSF until such time as gifts are transferred from the Foundation to the Campus or UCSF Health. However, the Foundation activity is included in the UCSF financial statements and footnotes in separate columns as a discretely presented component unit. Additional information about the Foundation may be found in their stand-alone audited financial statements.

UCSF Benioff Children's Hospital Oakland

The Regents are also the sole corporate and voting member of UCSF Benioff Children's Hospital Oakland (BCHO), a private, not-for-profit 501(c)(3) corporation. A Board of Directors comprised primarily of independent directors serves as the governing body of BCHO. Certain corporate powers are reserved to The Regents, including the power to appoint and remove directors and to approve BCHO's strategic plan and budget. Children's Hospital and Research Center Foundation ("BCHO Foundation"), a nonprofit public benefit corporation, is organized and operated for the purpose of supporting BCHO. UCSF Health provides certain management services for BCHO. Since UCSF has the ability to impose its will on BCHO, under GASB requirements, the results of BCHO, including its foundation, are consolidated as part of UCSF and are included as part of UCSF's results.

Significant Accounting Policies

The financial statements of UCSF and the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America, using the economic resources measurement focus and the accrual basis of accounting. UCSF and the Foundation follow accounting principles issued by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 83, *Certain Asset Retirement Obligations*, was adopted by UCSF as of July 1, 2018. The Statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. The Statement requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred. The deferred outflow of resources associated with an asset retirement obligation is measured at the amount of the corresponding liability upon initial measurement and is generally recognized as an expense during the reporting periods that the asset provides service. The effects of reporting Statement No. 83 in the UCSF's financial statement for year ended June 30, 2018 were as follows:

(in thousands of dollars)	YEAR ENDED JUNE 30, 2018		
	As Previously Reported	Effect of Adoption Of Statement No. 83	As Restated
STATEMENT OF NET POSITION			
Deferred outflows of resources	$1,151,937	$295	$1,152,232
Other noncurrent liabilities	57,541	1,125	58,666
Noncurrent liabilities	9,311,246	1,125	9,312,371
Total liabilities	10,538,031	1,125	10,539,156
Unrestricted	(3,550,964)	(830)	(3,551,794)
Net position	1,233,072	(830)	1,232,242
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
Other nonoperating revenues (expenses), net	79,813	(26)	79,787
Net nonoperating revenues	718,409	(26)	718,383
Income before other changes in net position	$340,725	($26)	$340,699

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was implemented by UCSF as of July 1, 2018. This Statement defines debt for purposes of disclosures in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires additional disclosures related to debt including providing additional information for direct borrowings and direct placements of debt separately from other debt. Implementation of Statement No. 88 had no impact on the financial statements.

New accounting pronouncements

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

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for UCSF's fiscal year beginning July 1, 2020. This Statement establishes a single approach to accounting for and reporting leases based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases. UCSF is evaluating the effect Statement No. 87 will have on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective prospectively for UCSF's fiscal year beginning July 1, 2020. The Statement requires that interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. As a result, interest costs would not be capitalized as part of the asset's historical cost. For construction in progress, interest cost incurred after applying this Statement No. 89 will not be capitalized. UCSF is evaluating the effect that Statement No. 89 will have on its financial statements.

In August 2018, the GASB issued Statement No. 90, M*ajority Equity Interests—An Amendment of GASB Statements No.14 and No.61*, effective for UCSF's fiscal year beginning July 1, 2019. The Statement defines a majority equity interest in a legally separate organization and clarifies the accounting and financial reporting for majority equity interests, classified as either investments or component units, in the financial statements. UCSF is evaluating the effect that Statement No. 90 will have on its financial statements.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, effective for UCSF's fiscal year beginning July 1, 2021. The Statement defines a conduit debt obligation and clarifies the accounting and financial reporting for conduit debt obligations with additional or voluntary commitments by issuers. UCSF is evaluating the effect that Statement No. 91 will have on its financial statements.

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

UCSF and the Foundation consider all balances in demand deposit accounts to be cash. UCSF classifies all other highly liquid cash equivalents with original maturities less than one year as short-term investments.

STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures, and other operating expenses for campuses and medical centers is invested in STIP. Investments authorized by The Regents for STIP include fixed-income securities with a maximum maturity of 5.5 years.

Substantially all of UCSF's cash and cash equivalents are invested in STIP. Investment income is reported as nonoperating revenue in the statements of revenues, expenses and changes in net position.

Additional information on cash and investments can be obtained from the University's Annual Financial Report of the University.

Investments. UCSF's investments consist of investments in the UC Regents Total Return Investment Pool (TRIP) and General Endowment Pool (GEP). The Regents, as the governing body, are responsible for the oversight of the University's investments and establish investment policy, which is carried out by the Chief Investment Officer. Asset allocation guidelines are provided to the campus foundations by the Investment Committee of The Regents.

Investments are measured and recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Investment in non-exchange traded debt and equity investments are valued using inputs provided by independent pricing services or by broker/dealers who actively trade in these markets. Certain securities may be valued on a basis of a price provided by a single source.

Investments also include private equities, absolute return funds, real estate, real asset and certain corporate asset-backed securities. Private equities include venture capital partnerships, buyout, real assets and international funds. Fair values for interests in private equity, absolute return partnerships and real estate partnerships are based on valuations provided by the general partners of the respective partnerships. The valuations are primarily based on the most recent 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. The most recent NAV is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through June 30, 2019 and 2018.

Interests in certain direct investments in real estate are estimated based upon independent appraisals. Because the private equity, real estate, real assets and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed. 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.

For other investments, the University considers various factors to estimate fair value, such as the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections as well as discounted cash flow analysis. The selection of an appropriate technique may be affected by the availability and general reliability of relevant inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, the University may review the investment's underlying portfolio as well as engage external appraisers, depending on the nature of the investment. The University exercises due diligence in assessing the external managers' use of and adherence to fair value principles. In conjunction with these procedures, estimated fair value is determined by consideration of a wide range of factors, including market conditions, redemption terms and restrictions and risks inherent to the inputs of the external investment managers' valuation. In situations where the information provided by the external manager is deemed to not be representative of the fair value as of the measurement date, management evaluates specific features of the investment and utilizes supplemental fair value information provided by the external manager along with any relevant market data to measure the investment's fair value.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's statement of revenues, expenses and changes in net position.

Foundation investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded based on fair value at the date of donation.

Derivative financial instruments. Derivative instruments are recorded at fair value. Futures contracts, foreign currency exchange contracts, stock rights and warrants, options and swaptions are valued at the settlement price on the last day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Financial institutions or independent advisors have estimated the fair value of the interest rate swaps and total return swaps using quoted market prices when available or discounted expected future net cash flows.

UCSF has entered into interest rate swap agreements to limit the exposure of their variable-rate debt to changes in market interest rates. These derivative financial instruments are agreements that involve the exchange with a counterparty of fixed- and variable-rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The difference to be paid or received is recognized over the life of the agreements as an adjustment to interest expense.

Interest rate swaps are recorded at fair value as either assets or liabilities in the statements of net position. UCSF has determined that the market interest rate swaps are hedging derivatives that hedge future cash flows. Under hedge accounting, changes in the fair value are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values).

At the time of pricing certain interest rate swaps, the fixed rate of the swaps was off-market such that UCSF received an up-front payment. As such, the swaps consist of an at-the-market interest rate swap derivative instrument and a borrowing, represented by the up-front payment. The unamortized amount of the borrowing is included in the current and noncurrent portion of debt and amortized as interest expense over the term of the bonds.

Investments held by trustee. Investments held by trustee consist of bond proceeds held by the Treasurer of The Regents. Bond proceeds remain invested with the Treasurer until capital project costs are incurred.

Accounts receivable, net. Accounts receivable, net of allowance for uncollectible amounts, include reimbursements due from state and federal sponsors of externally funded research, patient billings, local government and private grants and contracts, amounts due from students, affiliation agreements, and other educational and auxiliary activities. Foundation receivables include receivables related to investments sold.

Pledges receivable, net. Written unconditional promises to make future payments of private gifts to UCSF or the Foundation, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met.

Beneficial interests in irrevocable split-interest agreements. The beneficial interests in irrevocable split-interest agreements represent the UCSF's right to the portion of the benefits from the irrevocable split-interest agreements that are administered by third parties and are recognized as an asset and deferred inflows of resources. These are measured at fair value and are reported as other noncurrent assets in the statements of net position. Changes in the fair value of the beneficial interest asset are recognized as an increase or decrease in the related deferred inflows of resources. At the termination of the agreement, net assets received from the beneficial interests are recognized as revenues.

Notes and mortgages receivable, net. Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other sources. Home mortgage loans, primarily to faculty, are provided from the University's STIP and from other UCSF sources, and are collateralized by deeds of trust on properties concentrated in the San Francisco Bay Area.

Inventories. Inventories, consisting primarily of pharmaceuticals, medical supplies and printed forms, are stated on a first-in, first-out basis at cost.

Capital assets, net. Land, infrastructure, buildings and improvements, intangible assets, equipment and software, libraries, collections and special collections are recorded at cost at the date of acquisition, or estimated acquisition value at the date of donation in the case of gifts. Estimates of acquisition value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual value. Intangible assets include easements, land rights, trademarks, patents and other similar arrangements. Capital leases are recorded at the estimated present value of future minimum lease payments. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. Incremental costs, including salaries and employee benefits, directly related to the acquisition, development and installation of major software projects are included in the cost of the capital assets. All costs of land, library collections and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Equipment under capital leases is amortized over the estimated useful life of the equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease or the economic life of the asset.

Estimated economic lives are generally as follows:

(shown in years)	
Infrastructure	25
Land improvements	5-20
Buildings and improvements	10-40
Equipment	2-20
Computer software	3-7
Intangible assets	2 - indefinite
Library books and collections	15

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets, such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned on tax-exempt borrowing during the temporary investment of project-related borrowings.

Obligations under life income agreements. Obligations under life income agreements represent trusts with living income beneficiaries where the Foundation has a residual interest. The investments associated with these agreements are recorded at fair value. The discounted present value of the income beneficiary interest is reported as a liability in the statement of net position. Gifts subject to such agreements administered by the Foundation are recorded as deferred inflows of resources, net of the income beneficiary share, at the date of the gift. Actuarial gains and losses are included in deferred inflows of resources in the statement of net position. At the termination of the agreement, the Foundation's residual interest is recorded as gift revenue in the statement of revenues, expenses and changes in net position.

Unearned revenue. UCSF unearned revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees, and clinical trials. Foundation unearned revenue comprises conditional pledge payments received from a donor where the conditions and milestone events specified by the donor have not yet been met by the University.

Funds held for others. Funds held for others result from UCSF, or the Foundation, acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to UCSF or the UCSF Foundation.

Federal refundable loans. Certain loans to students are administered by UCSF, with funding primarily supported by the federal government. UCSF's Statements of Net Position include both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Pollution remediation obligations. Upon an obligating event, UCSF estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as other noncurrent liabilities.

Asset retirement obligations. Upon an obligating event, UCSF records the costs of any expected tangible capital asset retirement obligations using the best estimate of the current value of outlays expected to be incurred. The liabilities are reviewed annually and may change as a result of additional information that refines the estimates. Actual asset retirement obligation costs may vary from these estimates as a result of changes in assumptions such as asset retirement dates, regulatory requirements, technology and costs of labor, material and equipment.

Retiree health benefits and liability. The University established the University of California Retiree Health Benefits Trust (UCRHBT) to allow certain University locations and affiliates, including UCSF, to share the risks, rewards, and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The Regents serve as trustee of UCRHBT and have the authority to amend or terminate the Trust.

UCRHBT receives the University's contributions toward retiree health benefits from campuses, medical centers and University affiliates. The University receives retiree health contributions from University affiliates and campus and medical center retirees that are deducted from their UCRP benefit payments. The University also remits these retiree contributions to UCRHBT. The University acts as a third-party administrator on behalf of UCRHBT and pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees. UCRHBT reimburses the University for these amounts.

The University's net retiree health benefits liability is measured as the total retiree health benefits liability, less the amount of the University of California Retiree Health Benefit Trust (UCRHBT) fiduciary net position. The fiduciary net position and changes in net position of UCRHBT has been measured consistent with the accounting policies used by the trust. The total retiree health benefits liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the health benefit trust's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Expense for retiree health benefits is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for retiree health benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Net Pension Liability. UCSF records pension obligations equal to the net pension liability for its defined benefit plans. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The fiduciary net position and changes in net position of the defined benefit plans has been measured consistent with the accounting policies used by the plans. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Pension obligations also include the net pension liability for the Retirement Plan for Children's Hospital & Research Center at Oakland ("CHRCO Plan"). The CHRCO Plan's net pension liability, pension expense and deferred inflows or outflows are measured and reported using methodologies consistent with those described above for UCSF's pension obligations.

Due to University. Additional deposits in UCRP have been made using University resources to fund the gap between the approved contribution rates and the required contributions based on The Regents funding policy. These deposits, carried as internal loans to the University, are being repaid, plus accrued interest, over a thirty-year period through a supplemental pension assessment. Supplemental pension assessments are reported as pension expense. Additional deposits in UCRP by the University and changes in the proportionate share of the internal loans, are reported as other changes in net assets.

Deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources and deferred inflows of resources represent a consumption and acquisition of net position that apply to a future period, respectively. UCSF classifies gains on refunding of debt as deferred inflows of resources and losses as deferred outflows of resources and amortizes such amounts as a component of interest expense over the shorter of the remaining life of the old or new debt.

UCSF and the Foundation classifies changes in irrevocable split-interest agreements as deferred inflows of resources.

UCSF classifies an increase in the fair value of the hedging derivatives as deferred inflows of resources, and a decrease as deferred outflows of resources.

Changes in net pension liability and net retiree health benefit liability not included in pension expense and retiree health benefits expense, respectively, are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension and retiree health liabilities are reported as deferred outflows of resources.

Net position. Net position is required to be classified for accounting and reporting purposes into the following categories:

Net investment in capital assets. This category includes all of UCSF's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted. UCSF and the Foundation classify net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. The net position subject to externally imposed restrictions, which must be retained in perpetuity by UCSF or the Foundation is classified as nonexpendable net position. This includes GEP and Foundation permanent endowment funds.

Expendable. The net position whose use by UCSF or the Foundation is subject to externally imposed restrictions that can be fulfilled by actions of UCSF or the Foundation, pursuant to those restrictions, or that expire by the passage of time is classified as expendable net position.

Unrestricted. The net position that is not subject to externally imposed restrictions governing its use is classified as unrestricted net position. Unrestricted net position may be designated for specific purposes by management or The Regents. The Foundation's unrestricted net position may be designated for specific purposes by their Board of Overseers. Substantially all of the unrestricted net position is allocated for academic and research initiatives or programs, for capital programs or for other purposes.

Revenues and expenses. Operating revenues include receipts from student tuition and fees, grants and contracts for specific operating activities, sales and services from UCSF Health and faculty physicians practicing as the UCSF Faculty Practices, educational activities, and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of UCSF are presented in the statements of revenues, expenses and changes in net position as operating activities.

UCSF Health revenue includes net patient service revenue reported at the estimated net realizable amounts from patients, third-party payors including Medicare and Medi-Cal, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. UCSF Health believe that they are in compliance with all applicable laws and regulations related to the Medicare and Medi-Cal programs. UCSF Health estimate and recognize a provision for uncollectible accounts based on historical experience. Substantially, all of UCSF Health's operating expenses are directly or indirectly related to patient care activities.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of UCSF are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, certain federal grants for student financial aid, private gifts and investment income, since GASB does not consider them to be related to the principal operating activities of UCSF.

The Foundation was established to financially support UCSF. Private gifts to the Foundation are recognized as operating revenues as the revenues are fundamental to the core mission of the Foundation. When the gift or grant is transferred from the Foundation to UCSF, UCSF records the revenue as either nonoperating revenue, or a capital gift or grant. The Foundation records these transfers as an operating expense.

Nonoperating revenues and expenses include state educational appropriations for the support of UCSF operating expenses, state and federal financing appropriations, state research revenue, private gifts for other than capital purposes, investment income, interest expense, patent income, and gain or loss on the disposal of capital assets.

State capital appropriations and capital gifts and grants are classified as other changes in net position.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of UCSF. Certain waivers of student tuition and fees, considered to be scholarship allowances, are recorded as an offset to revenue.

UCSF recognizes certain scholarship allowances, including financial aid and fee waivers, as the difference between the stated charge for tuition and fees and the amount that is paid by the student, as well as by third parties making payments on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

State appropriations. The state of California provides appropriations to the University that are allocated to UCSF on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses for education, retirement or other specific operating purposes are reported as operating expenses. State appropriations for capital projects are recorded as revenue under other changes in net position when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant operating revenue.

Grants and contracts revenue. UCSF receives grants and contracts revenue from governmental and private sources. UCSF recognizes revenue associated with the direct cost of sponsored programs as the related expenditures are incurred for cost reimbursable awards and when service milestones or level of effort are met for fixed-price awards. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with UCSF's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2019, the facilities and administrative cost recovery totaled $279 million, which consisted of $187 million from federally sponsored programs and $92 million from other sponsors. For the year ended June 30, 2018, the facilities and administrative cost recovery totaled $260 million, which consisted of $172 million from federally sponsored programs and $88 million from other sponsors.

Charity care. UCSF Health provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. UCSF Health also provide services to other patients under publicly sponsored programs, which may reimburse at amounts less than the cost of the services provided to the recipients. The difference between the cost of services provided to these persons and the expected reimbursement is included in the estimated cost of charity care.

Compensated absences. UCSF accrues annual leave for employees, including employer-related costs, at rates based upon length of service and job classification, and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of UCSF programs.

Tax exemption. The University is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the University is a state institution, related income received by the University is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code. University of California Retirement System plans are qualified under IRC Section 401(a) and the related trusts are tax-exempt under Section 501(c)(3). The Foundation is exempt under Section 501(c)(3). Income received by the UCRHBT is tax-exempt under Section 115(a). CHRCO and its component unit, the Children's Hospital and Research Center Foundation, are qualified for exemption under IRC Section 501(c)(3). Income received by UCRHBT is tax-exempt under IRC Section 115(a).

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

1. Cash and Cash Equivalents

The University maintains centralized management for substantially all of UCSF's 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 penalty. Cash in demand deposit accounts is minimized by sweeping available cash balances into University investment accounts on a daily basis. UCSF had depository bank balances of $3 million and $1 million at June 30, 2019 and 2018, respectively.

At June 30, 2019 and 2018, the carrying amount of the Foundation's cash and cash equivalents was $385 million and $397 million, respectively, compared to bank balances of $377 million and $396 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 STIP of $324 million and $355 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. Foundation uncollateralized cash balances totaling $1 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.

2. Investments

The composition of investments, by investment type and fair value at June 30, is as follows:

	UCSF		UCSF FOUNDATION	
(in thousands of dollars)	2019	2018	2019	2018
EQUITY SECURITIES				
Domestic			$61,998	$80,875
Foreign			1,982	5,679
Equity securities			**63,980**	**86,554**
FIXED-INCOME SECURITIES				
U.S. Treasury bills, notes and bonds	$442	$422	198,792	195,215
U.S. government-backed securities				15
U.S. government-backed, asset-backed		29	9,556	9,989
U.S. government guaranteed	**442**	**451**	**208,348**	**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
Supranational/Foreign			1,430	1,442
Other U.S. dollar denominated			**63,922**	**80,503**
COMMINGLED FUNDS				
Absolute-return funds			458,144	431,276
Balanced funds	3,960,594	3,694,489	39,528	34,859
U.S. equity funds	963	1,096	300,265	238,417
Non-U.S. equity funds	395	404	287,990	307,771
U.S. bond funds	308	326		
Non-U.S. bond funds	147	159		
Money market funds	95	95		
Real estate/REIT			48,229	33,214
Commingled funds	**3,962,502**	**3,696,569**	**1,134,156**	**1,045,537**
Private equity			318,519	203,949
Publicly traded real estate investment trusts	270	259		
Real estate			13,483	13,549
Other investments	306,428		7,578	5,977
Total investments	**4,269,642**	**3,697,279**	**1,809,986**	**1,641,288**
Less: Current portion	(1,671,458)	(1,681,786)	(22,401)	(15,526)
Noncurrent portion	**2,598,184**	**2,015,493**	**1,787,585**	**1,625,762**
Beneficiary interests in irrevocable split-interest agreements included in other assets			**4,048**	**3,358**
Total noncurrent	**$2,598,184**	**$2,015,493**	**$1,791,633**	**$1,629,120**

The University-managed commingled funds (UC pooled funds) serve as the core investment vehicle for UCSF.

A description of the funds used is as follows:

Total Return Investment Pool (TRIP)

The Total Return Investment Pool (TRIP) allows participants the opportunity to maximize the return on their long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP supplements STIP by investing in an intermediate-term, higher-risk portfolio allocated across equities, fixed-income and liquid alternative strategies, and allows participants to maximize the return on their long-term capital. The objective of TRIP is to generate a rate of return above the policy benchmark, after all costs and fees, consistent with liquidity, cash flow requirements and the risk. UCSF's investment in TRIP is classified as commingled balanced funds.

Investments in TRIP require at least 30 day notice to the University for any redemptions or withdrawals. Withdrawals will occur on the last business day of the month.

General Endowment Pool (GEP)

The General Endowment Pool (GEP) is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio of equities, fixed-income securities and alternative investments. The primary goal is to maximize long-term total return, growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements. UCSF's investment in GEP is classified as commingled funds. GEP is considered to be an external investment pool from UCSF's perspective.

Blue and Gold Pool (BGP)

The Blue and Gold Pool (BGP) is an investment pool established by The Regents and is available to the University and its related entities. The objective of BGP is to provide a low cost, liquid, diversified investment vehicle to invest long-term excess reserves to earn a higher return than would otherwise be expected from STIP and TRIP. To achieve liquidity, transparency and minimal expense, a passive investment strategy in equities and bonds is used.

Foundation's Investments

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 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. The Investment Company is responsible for recommending investment guidelines and policy for approval by the Board of Overseers, and implementation of investment policy, including the selection of investment managers. Investments managed by the Investment Company are associated with the Unendowed Investment Pool (UIP) and the Endowed Investment Pool (EIP) and trust assets.

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 The Regents short-term investment pool (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.

EIP investments authorized by the Board of Overseers include cash and cash equivalents, readily marketable equity and fixed income securities, and alternative investments including hedge funds, private equity funds and real assets.

The equity portion of the endowed portfolio may include both domestic and foreign equities, including foreign currency denominated, common and preferred stocks, actively managed and passive (index) strategies.

The fixed income portion of the endowed portfolio may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities.

EIP cash is held as cash, money market mutual funds or The Regents STIP, with an objective of maximizing current income to the extent consistent with the preservation of capital and liquidity, and maintenance of a stable $1.00 per share net asset value.

EIP investment guidelines address credit quality and concentration of credit risk, and provide for performance evaluation against relevant benchmarks.

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. BCHO Foundation's investment in EIP is classified as commingled funds. 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 the financial statements as funds held for external pool participants. Such investments are not owned or contributed to the Foundation.

Investments in the EIP by the Foundation require at least twelve months' prior written notice of intention to terminate as of a date specified in the notice. Withdrawals will occur on the last business day of the month and are subject to certain withdrawal guidelines such as providing a forecasted schedule of cash withdrawals 90 days prior to the start of each fiscal year.

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 are as follows:

(in thousands of dollars)	2019	2018
ASSETS		
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
Total assets	**1,840,329**	**1,673,670**
LIABILITIES		
Payable for investments purchased	20	8,779
Other liabilities	103	421
Total liabilities	**123**	**9,200**
NET POSITION AS HELD FOR ALL POOL PARTICIPANTS		
Internal portion	1,579,485	1,412,437
External portion	260,721	252,033
Total net position	**$1,840,206**	**$1,664,470**

(in thousands of dollars)	2019	2018
Revenues from investment income	$14,810	$11,490
Expenses for investment management	(9,615)	(9,321)
Net investment income	**5,195**	**2,169**
Realized gain	7,348	81,420
Change in unrealized gain	62,702	46,145
Net realized and unrealized gain	**70,050**	**127,565**
Income from operations	75,245	129,734
Distributions to participants	(79,548)	(67,959)
Net share transactions	180,039	296,429
Increase in net position	**175,736**	**358,204**
NET POSITION		
Beginning of year	1,664,470	1,306,266
End of year	**$1,840,206**	**$1,664,470**

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 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. Alternative investment strategies and their underlying assets and rights are subject to an array of economic and market vagaries that can limit or erode value.

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 the possibility that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments.

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, for example 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.

Certain fixed-income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have minimal credit risk.

The credit risk profile for the investments at June 30, 2019 and 2018 are as follows:

	UCSF		UCSF FOUNDATION	
(in thousands of dollars)	2019	2018	2019	2018
FIXED- OR VARIABLE-INCOME SECURITIES:				
U.S. government guaranteed	$442	$422	$208,348	$205,219
OTHER U.S. DOLLAR DENOMINATED:				
AAA			11,762	16,298
AA			15,708	24,739
A			6,185	6,774
BBB			19,944	22,802
BB				
B				
Not rated		29	10,323	9,890
COMMINGLED BOND FUNDS:				
U.S. bond funds - Not rated	308	326		
Non-U.S. bond funds - Not rated	147	159		
Money market funds - Not rated	95	95		

UCSF's commingled funds - balanced funds (GEP and TRIP) are not rated.

Custodial credit risk

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

Substantially all of UCSF's and the Foundation's securities are registered in the University's and the Foundation's, respectively, name by the custodial bank as an agent for the University and the Foundation, respectively. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk for such investments is remote.

Concentration of credit risk

Concentration of credit risk is the risk of loss associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools and other pooled investments are not subject to concentration of credit risk. Investments in the various investment pools managed by the Office of the Chief Investment Officer of The Regents and the Foundation are external investment pools and are not subject to concentration of credit risk. There is no concentration of any single individual issuer of investments that comprises more than five percent of total investments.

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 percent 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 percent at purchase or 20 percent at market in any one issuer.

Unendowed portfolio investment policy specifies that no more than 5 percent 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.

The Foundation's holdings in Bayside Partners, LP and BVSF were sold during 2018. No single issuer comprised more than 5 percent of the Foundation's EIP investment balances in 2019 and 2018.

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 (1-percentage-point) change in the level of interest rates. It is not a measure of time.

Portfolio guidelines for the Foundation limit the maximum weighted average effective duration of the UIP to not greater than 125 percent 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 durations for fixed- or variable-income securities at June 30 are as follows. Information presented does not take into account the relative weighting of the portfolio components to the total portfolio.

The effective duration of fixed-income securities at June 30, 2019 and 2018 follows.

	UCSF		UCSF FOUNDATION	
	2019	2018	2019	2018
FIXED-INCOME SECURITIES				
U.S. government				
U.S. Treasury notes	5.3	5.5	2.26	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	2.7
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	

UCSF considers the effective duration for money market funds to be zero and effective duration information for the EIP is unavailable.

In accordance with investment policies, investments may include mortgage pass-through securities, collateralized mortgage obligations, callable bonds, corporate asset-backed securities and other asset-back securities that are considered to be highly sensitive to changes in interest rates.

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 Corporation (Freddie Mac), and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized mortgage obligations

Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest-rate environments, the underlying mortgages are subject to a higher propensity of prepayments. For an interest-only CMO, the reduced cash flow associated with the prepayments reduces the expected rate of return and causes the fair value to decline. For a principal-only CMO, the increased cash flows associated with the prepayments increase the expected rate of return and cause the fair value to increase. In a rising interest-rate environment, the opposite is true for both the interest-only and principal-only CMOs. The Foundation does not invest in principal-only or interest-only CMOs.

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.

At June 30, 2019 and 2018, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

	UCSF		UCSF FOUNDATION	
(in thousands of dollars)	2019	2018	2019	2018
Mortgage pass-through securities			$13,459	$22,960
Corporate asset-backed securities			22,093	26,188
Collaterized mortgage obligations			10,658	11,134
Other asset-backed securities		$29	476	
Total		**$29**	**$46,686**	**$60,282**

At June 30, 2019 and 2018, the effective duration for fixed income securities that are considered to be highly sensitive to changes in interest rates is as follows:

	UCSF		UCSF FOUNDATION	
	2019	2018	2019	2018
Mortgage pass-through securities			1.57	2.43
Corporate asset-backed securities			0.75	1.12
Collaterized mortgage obligations			0.82	0.66
Other asset-backed securities		4.0		
Callable bonds			2.64	

Foreign currency risk

The University's strategic asset allocation policy for TRIP and GEP includes allocations to non-U.S. equities and non-dollar-denominated bonds. The benchmarks for these investments are not hedged; therefore foreign currency risk is part of the investment strategies. Portfolio guidelines for U.S. investment-grade fixed-income securities also allow exposure to non-U.S. dollar-denominated bonds up to 10 percent of the total portfolio market value. 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. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios.

At June 30, 2019 and 2018, UCSF and the Foundation is subject to foreign currency risk as a result of holding various currency denominations in the following investments:

	UCSF		UCSF FOUNDATION	
(in thousands of dollars)	2019	2018	2019	2018
EQUITY SECURITIES				
Canadian Dollar				$1,655
British pound			$913	1,109
Australian Dollar			1,069	2,915
Total equity securities			**1,982**	**5,679**
Mexican Peso			1,430	1,442
Total Fixed income securities			**1,430**	**1,442**
COMMINGLED FUNDS *(various currency denominations)*				
Commingled funds - Non-U.S. equity	$395	$404	287,990	307,771
Commingled funds - Non-U.S. bonds	147	159		
Real estate investment trusts	92	97		
Commingled funds - Absolute return			275,600	235,715
Commingled funds - Private equity			40,798	32,678
Commingled funds - Real estate				3,990
Total commingled funds	**634**	**660**	**604,388**	**580,154**
Total exposure to foreign currency risk	**$634**	**$660**	**$607,800**	**$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 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 UCSF Foundation donor-restricted endowment funds (internal pool) and external pool participants, as follows:

(in thousands of dollars)	2019	2018
Investment income, net	$10,094	$6,200
Net accumulated gains and corpus	63,440	56,679
Endowment payout	**$73,534**	**$62,879**

Endowment payout is shown net of endowment cost recovery fees of $6 million and $5 million for 2019 and 2018, respectively.

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

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 $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.

3. 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 equity securities and other publicly traded securities.

Level 2 **–** Quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments include fixed- or variable-income securities, commingled funds, certain derivatives 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 judgment. Level 3 financial instruments include private equity investments, real estate and beneficial interests in irrevocable split-interest agreements.

Net Asset Value (NAV) **–** Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV. Investments measured at NAV include hedge funds, private equity investments and commingled funds.

Not Leveled **–** Cash and cash equivalents are not measured at fair value and, thus, are not subject to the fair value disclosure requirements.

The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2019:

(in thousands of dollars)	UCSF				
	Quoted Prices in Active Market (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Total
U.S. GOVERNMENT GUARANTEED:					
U.S. Treasury bills, notes, and bonds		$442			$442
OTHER U.S. DOLLAR-DENOMINATED:					
U.S. agencies - asset-backed securities					
COMMINGLED FUNDS:					
U.S. equity funds	$963				963
Non-U.S. equity funds	395				395
U.S. bond funds	308				308
Non-U.S. bond funds	147				147
Money market funds	95				95
Balanced funds				$4,267,022	4,267,022
Publicly traded real estate investments trusts	270				270
Real estate					
Total	**$2,178**	**$442**		**$4,267,022**	**$4,269,642**

(in thousands of dollars)	UCSF FOUNDATION				
	Quoted Prices in Active Market (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Total
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
Other					
COMMINGLED FUNDS:					
Absolute returns				$458,144	458,144
U.S. equity funds				300,265	300,265
Non-U.S. equity funds				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)	ENDOWED INVESTMENT POOL INVESTMENTS				
	Quoted Prices in Active Market (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Total
Equity securities	$63,980				$63,980
FIXED OR VARIABLE INCOME SECURITIES:					
U.S. government guaranteed		$150,155			150,155
COMMINGLED FUNDS:					
Absolute returns				$458,144	458,144
U.S. equity funds				300,265	300,265
Non-U.S. equity funds				287,990	287,990
Private equity			$9,356	295,133	304,489
Real estate/REIT				48,229	48,229
Total	**$63,980**	**$150,155**	**$9,356**	**$1,389,761**	**$1,613,252**

The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2018:

(in thousands of dollars)	UCSF				
	Quoted Prices in Active Market (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Total
U.S. GOVERNMENT GUARANTEED:					
U.S. Treasury bills, notes, and bonds		$422			$422
OTHER U.S. DOLLAR-DENOMINATED:					
U.S. agencies - asset-backed securities		29			29
COMMINGLED FUNDS:					
U.S. equity funds	$1,096				1,096
Non-U.S. equity funds	404				404
U.S. bond funds	326				326
Non-U.S. bond funds	159				159
Money market funds	95				95
Balanced funds				$3,694,489	3,694,489
Publicly traded real estate investments trusts	259				259
Real estate					
Total	**$2,339**	**$451**		**$3,694,489**	**$3,697,279**

(in thousands of dollars)	UCSF FOUNDATION				
	Quoted Prices in Active Market (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Total
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
Other					
COMMINGLED FUNDS:					
Absolute returns				$431,276	431,276
U.S. equity funds				238,417	238,417
Non-U.S. equity funds				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	**$121,591**	**$285,722**	**$23,322**	**$1,214,011**	**$1,644,646**

(in thousands of dollars)	ENDOWED INVESTMENT POOL INVESTMENTS				
	Quoted Prices in Active Market (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Total
Equity securities	$86,554				$86,554
FIXED OR VARIABLE INCOME SECURITIES:					
U.S. government guaranteed		$143,967			143,967
COMMINGLED FUNDS:					
Absolute returns				$431,276	431,276
U.S. equity funds				238,417	238,417
Non-U.S. equity funds				307,771	307,771
Private equity				192,757	192,757
Real estate/REIT				33,214	33,214
Total	**$86,554**	**$143,967**		**$1,203,435**	**$1,433,956**

Level 3 investments, comprised primarily of direct and indirect holdings in real estate, are valued using a market-based approach.

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:

(in thousands of dollars)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
INVESTMENT TYPE				
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
Total investments measured at NAV	**$1,403,037**	**$431,632**		

In addition to the amounts shown, the Foundation has additional commitments totaling $155 million associated with investments where no capital has been called by the manager as of June 30, 2019.

4. Accounts Receivable, net

Accounts receivable and the allowances for uncollectible amounts at June 30, 2019 and 2018 for UCSF are as follows:

(in thousands of dollars)	2019			2018
	Campus	UCSF Health	Total UCSF	Total UCSF
Federal government	$94,433		$94,433	$82,458
State government	22,752		22,752	29,504
Local and private	103,721		103,721	110,472
Patient receivables		$744,601	744,601	645,764
Student	8,421		8,421	6,278
Other	93,176	66,723	159,899	132,786
Total accounts receivable	322,503	811,324	1,133,827	1,007,262
Less: Allowance for uncollectible amounts	(8,430)	(62,043)	(70,473)	(59,463)
Accounts receivable, net	$314,073	$749,281	$1,063,354	$947,799

Foundation net accounts receivable primarily consists of receivable for investments sold of $15 million at June 30, 2019 and $8 million at June 30, 2018. This is due to trade date versus settlement date differences with investment trades executed late in the fiscal year and where the cash settlement occurred after the fiscal year end.

5. Pledges Receivable, net

The composition of pledges receivable at June 30, 2019 and 2018 is as follows:

(in thousands of dollars)	UCSF		UCSF Foundation	
	2019	2018	2019	2018
Total pledges outstanding	$1,994	$5,654	$94,142	$143,494
Less: Unamortized discount to fair value	(1)	(139)	(741)	(1,052)
Less: Allowance for uncollectible pledges	(50)	(28)	(3,235)	(4,064)
Total pledges receivable, net	**1,943**	**5,487**	**90,166**	**138,378**
Less: Current portion of pledges receivable	(1,930)	(2,158)	(35,838)	(53,208)
Noncurrent portion of pledges receivable, net	**$13**	**$3,329**	**$54,328**	**$85,170**

Future gross receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2019 are as follows:

(in thousands of dollars)	UCSF	UCSF Foundation
Pledges due in one year or less	$1,930	$37,150
Pledges due between one and five years	64	56,938
Pledges due in more than five years		54
Total pledges outstanding	$1,994	$94,142

Pledges from two donors represent more than 10 percent individually of total pledges receivable at June 30, 2019, and pledges from one donor represent more than 10 percent individually of total pledges receivable at June 30, 2018. They represent 47 percent and 63 percent 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.

6. Notes and Mortgages Receivable

Notes and mortgages receivable at June 30, 2019 and 2018, along with the allowances for uncollectible amounts for UCSF, are as follows:

(in thousands of dollars)	2019	2018
Notes and mortgages receivable	$28,586	$33,548
Less: Allowance for uncollectible amounts	(631)	(653)
Total notes and mortgages receivable, net	**27,955**	**32,895**
Less: Current portion of notes and mortgages receivable	(2,583)	(2,671)
Noncurrent portion of notes and mortgages receivable, net	**$25,372**	**$30,224**

7. Land, Infrastructure, Buildings, Equipment, Libraries and Collections

UCSF's capital asset activity for the years ended June 30, 2019 and 2018 is as follows:

(in thousands of dollars)	2017	Additions	Disposals	2018	Additions	Disposals	2019
ORIGINAL COST							
Land	$468,160	$42,950	($17,494)	$493,616	$626		$494,242
Infrastructure	53,594	10,320		63,914			63,914
Buildings and improvements	5,516,597	265,782	(96)	5,782,283	175,789	($35)	5,958,037
Equipment and software	1,512,888	101,964	(29,194)	1,585,658	97,731	(43,513)	1,639,876
Libraries and collections	109,780	99	(64)	109,815	1,093	(493)	110,415
Construction in progress	326,893	245,638		572,531	479,179		1,051,710
Capital assets, at original cost	**$7,987,912**	**$666,753**	**($46,848)**	**$8,607,817**	**$754,418**	**($44,041)**	**$9,318,194**

(in thousands of dollars)	2017	Depreciation and Amortization	Disposals and Transfers	2018	Depreciation and Amortization	Disposals and Transfers	2019
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure, buildings and improvements	$2,343,303	$192,331	($12,474)	$2,523,160	$195,404	$30	$2,718,594
Equipment and software	1,013,750	156,398	(25,935)	1,144,213	153,213	(40,313)	1,257,113
Libraries and collections	80,502	367	(476)	80,393	251	(64)	80,580
Accumulated depreciation and amortization	**3,437,555**	**$349,096**	**($38,885)**	**3,747,766**	**$348,868**	**($40,347)**	**4,056,287**
Capital assets, net	**$4,550,357**			**$4,860,051**			**$5,261,907**

8. Debt

UCSF directly finances the construction, renovation and acquisition of certain facilities and equipment through the issuance of debt obligations. Commercial paper provide for interim financing. Long-term financing includes revenue bonds, capital lease obligations and other borrowings.

Outstanding debt

UCSF's outstanding debt at June 30, 2019 and 2018 is as follows:

(in thousands of dollars)	Interest Rate Ranges	Maturity Years	2019	2018
INTERIM FINANCING:				
Commercial paper	0.4-0.6%	2019	$27,924	$5,432
LONG-TERM FINANCING:				
University of California General Revenue Bonds	0.4-7.6%	2019-2115	1,616,858	1,642,440
University of California Limited Project Revenue Bonds	0.7-6.3%	2019-2058	282,760	285,373
University of California Medical Center Pooled Revenue Bonds	0.3-6.6%	2019-2049	906,245	910,600
Other capital lease obligations	0.0-6.0%	2019-2042	5,913	6,579
CFIA third-party obligations	5.0-6.5%	2049	378,650	378,650
Unamortized premiums, net			194,229	206,437
Total outstanding debt			**3,412,579**	**3,435,511**
Less: Current portion of outstanding debt			(77,964)	(51,203)
Total long-term debt			**$3,334,615**	**$3,384,308**

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2019 and 2018 was $145 million and $132 million, respectively. Interest expense, net of investment income, totaling $44 million and $29 million, was capitalized during the years ended June 30, 2019 and 2018, respectively. The remaining $101 million in 2019 and $103 million in 2018 are reported as interest expense in the statements of revenues, expenses and changes in net position.

Outstanding debt activity

The activity with respect to UCSF's current and noncurrent debt for the years ended June 30, 2019 and 2018 is as follows:

YEAR ENDED JUNE 30, 2019 *(in thousands of dollars)*	Commercial Paper	University Revenue Bonds	Capital Leases	Third-Party CFIA	Total
Debt, beginning of year	$5,432	$3,006,129	$6,579	$417,371	$3,435,511
New obligations	22,864		1,115		23,979
Refinancing					
Principal payments	(372)	(32,550)	(1,781)		(34,703)
Amortization of premiums		(10,590)		(1,618)	(12,208)
Total debt, end of year	**27,924**	**2,962,989**	**5,913**	**415,753**	**3,412,579**
Less: Current portion	(26,420)	(48,007)	(1,736)	(1,801)	(77,964)
Noncurrent portion	**$1,504**	**$2,914,982**	**$4,177**	**$413,952**	**$3,334,615**

YEAR ENDED JUNE 30, 2018 *(in thousands of dollars)*	Commercial Paper	University Revenue Bonds	Capital Leases	Third-Party CFIA	Total
Debt, beginning of year	$23,063	$2,385,197	$2,497	$208,589	$2,619,346
New obligations	31,437	725,514	5,623	209,983	972,557
Refinancing	(28,693)	(65,403)			(94,096)
Principal payments	(20,375)	(30,386)	(1,541)		(52,302)
Amortization of premiums		(8,793)		(1,201)	(9,994)
Total debt, end of year	**5,432**	**3,006,129**	**6,579**	**417,371**	**3,435,511**
Less: Current portion	(3,556)	(44,113)	(1,689)	(1,845)	(51,203)
Noncurrent portion	**$1,876**	**$2,962,016**	**$4,890**	**$415,526**	**$3,384,308**

Commercial paper

The commercial paper program is issued in two series with tax-exempt and taxable components. Commercial paper may be issued for interim financing for capital projects, interim financing of equipment, financing of working capital for the medical centers, standby or interim financing for gift financed projects and working capital for the UCSF Health.

The program's liquidity is primarily supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operation of the projects financed and constitute limited obligations of the UCSF. There is no encumbrance, mortgage or other pledge of property securing commercial paper and the paper does not constitute general obligations of the UCSF.

University of California revenue bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center and research facilities of the UCSF. The bonds generally have annual principal and semiannual or monthly interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue Bond Indentures require UCSF to use the facilities in a way which will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes. The Indentures permit UCSF to issue additional bonds as long as certain conditions are met.

General Revenue Bonds are collateralized solely by General Revenues as defined in the General Revenue Bond Indenture. General Revenues are certain operating and nonoperating revenues of UCSF consisting of gross student tuition and fees; a portion of state appropriations; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond Indenture requires UCSF to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other covenants. The pledge of General Revenues for interest rate swap agreements is on a parity basis with UCSF's General Revenue Bonds.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The Limited Project Revenue Bond Indenture requires UCSF to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other covenants. The pledge of revenues for Limited Project Revenue Bonds is subordinate to the pledge of revenues for General Revenue Bonds, but senior to pledges for commercial paper notes.

Medical Center Pooled Revenue Bonds are issued to finance UCSF Health's medical center facilities and are collateralized by a joint and several pledges of the gross revenues of all five of the University's medical centers. Medical center gross revenues are excluded from General Revenues. The Medical Center Pooled Revenue Bond Indenture requires the medical centers to set rates, charges and fees each year sufficient for the medical centers' total operating and nonoperating revenues to pay for the annual principal and interest on the bonds and certain other covenants. The pledge of medical center revenues for interest rate swap agreements may be at parity with, or subordinate to, Medical Center Pooled Revenue Bonds.

Capital leases

Capital leases entered into with other lessors, typically for equipment, totaled $6 million and $7 million for the years ended June 30, 2019 and 2018, respectively.

CFIA third-party obligations

Neuroscience building

UCSF and CFIA have entered into an operating agreement that governs the arrangement between the parties with respect to the development, construction and financing of the Sandler Neurosciences Center (the Center). CFIA, through a conduit issuer, issued taxable Build America Bonds (BABs) as well as tax-exempt revenue bonds to finance the Center.

UCSF entered into a ground lease with CFIA, and CFIA subleased the ground to the developer in exchange for a commitment to pay amounts equal to base rent payments that are due to the developer under the building lease between UCSF and the developer. The sublease for the land was effective on March 24, 2010 and will terminate upon expiration of the building lease base rent payments. The developer has assigned the building lease payments to CFIA's trustee, therefore, UCSF makes payments directly to CFIA's trustee to pay debt service for the Series 2010A and Series 2010B revenue bonds starting on the commencement date of the ground sublease.

Under the ground lease between UCSF and CFIA, the ground has been leased to CFIA in exchange for the federal interest subsidies that are received by CFIA for the BABs subsidy. All BABs subsidy payments received by CFIA since the commencement of the building lease payments have been paid to UCSF. This ground lease was effective on March 24, 2010 and will terminate upon expiration of the building lease.

2130 Third Street

UCSF and CFIA have entered into an operating agreement that governs the arrangement between the parties with respect to the development, construction and financing of construction and management of a clinical, training and research facility to be known as the "Child, Teen, and Family Center and Department of Psychiatry Building" (Psychiatry Building). CFIA, through a conduit issuer, issued tax-exempt revenue bonds to finance the building.

UCSF entered into a ground lease with CFIA and CFIA subleased the ground to the new developer in exchange for a commitment to pay amounts equal to base rent payments that are due to the new developer under the 2130 Third Street lease between UCSF and the developer. The sublease for the land was effective on December 14, 2017 and will terminate upon expiration of 2130 Third Street's lease base rent payments. The new developer has also assigned 2130 Third Street's lease payments to CFIA's trustee; therefore, UCSF makes payment directly to CFIA's trustee to pay debt service for the Series 2017 Series revenue bonds starting on the commencement date of the ground sublease.

Derivative financial instruments

UCSF has entered into an interest-rate swap agreement to limit the exposure to changes in market interest rates in connection with certain variable-rate Medical Center Pooled Revenue Bonds. The interest-rate swap agreement is a contractual agreement entered into between UCSF and a counterparty of fixed-and variable-rate interest payments periodically over the life of the agreement without the underlying notional principal amounts or underlying contract. The payments correspond to an equity index, interest rate or currency. The net differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. UCSF's counterparties are major financial institutions.

Derivative financial instruments are recorded at fair value as either assets or liabilities in the statements of net position. Certain derivative financial instruments are determined to be hedging derivatives and designated as either a fair value or cash flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values). Changes in the fair value of derivatives that are not hedging derivatives are recorded as net appreciation or depreciation of investments in the statements of revenues, expenses and changes in net position.

The objectives and terms of the hedging derivative instruments outstanding at June 30, 2019 and 2018, along with the credit rating of the associated counterparty, are as follows:

(in thousands of dollars)		Notional Amount							Fair Value	
Type	Objective	2019	2018	Effective Date	Maturity Date	Cash Paid or Received	Terms	Counterparty Credit Rating	2019	2018
Pay fixed, receive variable interest-rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	$60,485	$64,075	2007	2032	None	Pay fixed 3.5897%; receive 58% of 1-month LIBOR plus 0.48%	Aa2/A+	($8,319)	($6,435)

Hedging derivative financial instrument risk factors

Credit risk

UCSF could be exposed to credit risk if the interest rate swap counterparties to the swap contracts are unable to meet the terms of the contracts. Contracts with positive fair values are exposed to credit risk. UCSF faces a maximum possible loss equivalent to the amount of the derivative's fair value, less any collateral held by UCSF provided by the counterparties.

Contracts with negative fair values are not exposed to credit risk. Although UCSF have entered into the interest rate swap contracts with creditworthy financial institutions, there is credit risk for losses in the event of non-performance by counterparties or unfavorable interest rate movements. There are no collateral requirements related to the swaps held by the UCSF.

Interest-rate risk

There is a risk the value of the interest-rate swaps will decline because of changing interest rates. The values of the interest-rate swaps with longer maturities tend to be more sensitive to changing interest rates and, therefore, more volatile than those with shorter maturities.

Basis risk

There is a risk that the basis for the variable payment received will not match the variable payment on the bonds that expose UCSF to basis risk whenever the interest rates on the bonds are reset. Interest rates on the bonds are tax-exempt interest rates, while the basis of the variable receipt on the interest rate swap is taxable. Tax-exempt interest rates can change without a corresponding change in the LIBOR rate due to factors affecting the tax-exempt market, which do not have a similar effect on the taxable market.

For example, the swaps expose UCSF to risk if reductions in the federal personal income tax rate cause the relationship between the variable interest rate on the bonds to be greater than 58.0 percent of the 30-day LIBOR, plus 0.48 percent.

Termination risk

There is termination risk for losses on the interest rate swaps classified as hedging derivatives in the event of non-performance by the counterparty in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. For the interest rate swap held by the UCSF, the termination threshold is reached when the credit quality rating for either the underlying Medical Center Pooled Revenue Bonds or swap counterparty falls below Baa2 or BBB. Upon termination, UCSF may also owe a termination payment if there is a realized loss based on the fair value of each interest rate swap.

Future debt service and hedging derivative interest-rate swaps

Future debt service payments for the UCSF's fixed- and variable-rate debt for each of the five fiscal years subsequent to June 30, 2019, and thereafter, are shown below. Although not a prediction by UCSF of the future interest rate cost of the variable-rate bonds or the impact of the interest rate swaps, these amounts assume that current interest rates on variable-rate bonds and the current reference rates of the interest rate swaps will remain the same. As these rates vary, variable-rate bond interest payments and net interest rate swap payments will vary. Future debt service payments for each of the five fiscal years subsequent to June 30, 2019 and thereafter are shown below:

(in thousands of dollars)	Commercial Paper	University Revenue Bonds	Capital Leases	Third-Party CFIA	Total Payments	Principal Payments	Interest Payments
2020	$27,924	$177,556	$1,841	$21,726	$229,047	$67,077	$161,970
2021		198,820	1,669	27,556	228,045	67,449	160,596
2022		197,167	1,517	27,555	226,239	68,383	157,856
2023		199,473	910	27,559	227,942	72,908	155,034
2024		197,514	179	27,557	225,250	73,314	151,936
2025-2029		982,658	58	137,665	1,120,381	413,512	706,869
2030-2034		967,541		134,892	1,102,433	503,511	598,922
2035-2039		891,651		131,187	1,022,838	562,873	459,965
2040-2044		809,738		126,627	936,365	638,252	298,113
2045-2049		558,758		121,024	679,782	551,341	128,441
2050-2054		66,937		32,460	99,397	59,730	39,667
Thereafter		542,590			542,590	140,000	402,590
Total future debt service	**27,924**	**5,790,403**	**6,174**	**815,808**	**6,640,309**	**$3,218,350**	**$3,421,959**
Less: Interest component of future payments		(2,984,540)	(261)	(437,158)	(3,421,959)		
Principal portion of future payments	**27,924**	**2,805,863**	**5,913**	**378,650**	**3,218,350**		
Adjusted by:							
Unamortized bond premium		157,127		37,102	194,229		
Total debt	**$27,924**	**$2,962,990**	**$5,913**	**$415,752**	**$3,412,579**		

Additional information on the revenue bonds can be obtained from the 2018-2019 annual report of the University of California.

Medical Center Pooled Revenue Bonds of $60 million are variable-rate demand bonds which give the debt holders the ability to tender the bonds back to the University upon demand. In 2016, the University entered into a bank standby bond purchase agreement to provide the funds for the purchase of the bonds that have been tendered and not remarketed in connection with the outstanding variable-rate demand bonds. The standby bond purchase agreement was terminated in 2017 and the University will provide its own liquidity in connection with mandatory and optional tenders and remarketing of these bonds. It does not plan to provide any third-party liquidity facility to support this obligation.

For cash flow hedges, future debt service payments for the variable-rate debt and net receipts or payments on the associated hedging derivative instruments for each of the five fiscal years subsequent to June 30, 2019, and thereafter are as presented below. Although not a prediction by UCSF of the future interest cost of the variable-rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2019, combined debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)	Variable-Rate Bond			
	Principal	Interest	Interest-Rate Swap, Net	Total Payments
Years ending June 30,				
2020	$3,725	$801	$998	$5,524
2021	3,860	754	945	5,559
2022	3,995	704	879	5,578
2023	4,145	650	813	5,608
2024	4,290	599	745	5,634
2025-2029	23,930	2,067	2,584	28,581
2030-2032	16,540	437	547	17,524
Total	**$60,485**	**$6,012**	**$7,511**	**$74,008**

9. Self-Insurance and Other Liabilities

Self-insurance programs

The University is self-insured for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded by the University when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The University charges UCSF predetermined premium rates applied to payroll and other expenses. These amounts are reflected as operating expenses in UCSF's statements of revenues, expenses and changes in net position. UCSF's financial statements do not reflect any liability amounts for self-insurance claims, as these estimated liabilities are recorded by the University.

UCSF Health is self-insured for medical malpractice, workers' compensation and employee health care. Self-insurance liability totaled $19 million and $18 million at June 30, 2019 and 2018, respectively.

Other liabilities

UCSF's other liabilities at June 30, 2019 and 2018 are as follows:

(in thousands of dollars)	2019		2018	
	Current	Noncurrent	Current	Noncurrent
Vacation leave	$109,784	$35,466	$101,248	$32,509
Deferred revenue		6,180	83,296	6,544
Other	4,558	10,615	9,744	12,185
Accrued interest	20,028		15,550	
Interfund payables	2,577		4,971	
Interest-rate swap agreements	6,524	8,319		6,435
Deferred rent	7,049	2,337		993
Total other liabilities	**$150,520**	**$62,917**	**$214,809**	**$58,666**

Foundation's other liabilities at June 30, 2019 and 2018 are as follows:

(in thousands of dollars)	2019		2018	
	Current	Noncurrent	Current	Noncurrent
Payable to UCSF	$28,913		$24,127	
Other		$486		$403
Total other liabilities	**$28,913**	**$486**	**$24,127**	**$403**

10. Deferred Outflows and Inflows of Resources

The composition of deferred outflows and inflows of resources at June 30, 2019 and 2018 is summarized as follows:

(in thousands of dollars)	2019	2018
DEFERRED OUTFLOW OF RESOURCES		
Net pension liability	$1,284,824	$260,237
Net retiree health benefits liability	1,046,901	871,857
Loss on debt refunding	12,442	13,703
Interest rate swap agreements	8,320	6,435
Total deferred outflows	**$2,352,487**	**$1,152,232**
DEFERRED INFLOW OF RESOURCES		
Net pension liability	$45,667	$83,401
Net retiree health benefits liability	1,177,816	1,109,917
Irrevocable split-interest agreement	15,951	13,966
Total deferred inflows	**$1,239,434**	**$1,207,284**

11. Retirement Plans

Most University employees participate in UCRS. UCRS consists of UCRP, a defined benefit plan funded with University and employee contributions; UCRSP, which includes defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective contributions; UC-VERIP, a defined benefit plan for University employees who were members of PERS and who elected early retirement; and the Children's Hospital and Research Center Oakland Pension Plan (CHRCO Pension Plan), a defined benefit plan fully funded with CHRCO contributions. The Regents has the authority to establish and amend the benefit plans except for the CHRCO Pension Plan. Administration authority with respect to UCRS plans is vested with the President of the University as plan administrator. CHRCO administers the CHRCO Pension Plan as the Sponsor and plan assets are held by US Bank (the Trustee). Additional information on the retirement plans can be obtained from the 2018-2019 annual reports of the University of California Retirement System which can be obtained at http://reportingtransparency.universityofcalifornia.edu.

Contributions

Contributions to UCRP are based upon rates determined by The Regents. The Regents' funding policy provides for contributions at rates to maintain UCRP on an actuarially sound basis. While the University's independent actuary annually determines the total funding policy contributions, the University is not required to contribute an amount equal to the total funding contribution. The actual contributions and the contribution rates of the University and employees are based on numerous factors, including the availability of funds to the University, the impact of employee contributions on the competitiveness of the University's total remuneration package, and collective bargaining agreements.

The Regents determines the portion of the total contribution to be made by the employer and by the employees, and employee contribution rates for represented employees are subject to collective bargaining. Effective July 1, 2014, employee member contributions range from 7.0 percent to 9.0 percent. The University pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP members.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or possibly a lump sum equal to the present value of their accrued benefits.

The University's membership in UCRP for the campuses and medical centers at June 30, 2019 was 283,041 total members consisting of 65,863 retirees and beneficiaries receiving benefits, 91,600 inactive members entitled to but not yet receiving benefits, 72,776 active vested members and 52,802 active nonvested members.

The net position held in trust for pension benefits attributable to UCRP included in the UCRP Statement of Plan Fiduciary Net Position was $70 billion and $67 billion at June 30, 2019 and June 30, 2018, respectively. Total pension liability was $88 billion and $77 billion, resulting in a net pension liability of $18 billion and $10 billion at June 30, 2019 and 2018, respectively.

Net pension liability

UCSF's net pension liability was measured as of June 30 and was calculated using the plan net position valued as of the measurement date and total pension liability determined based upon rolling forward the total pension liability from the results of the actuarial valuations as of July 1, one year prior to the measurement date. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future.

UCSF's net pension liability was calculated using the following methods and assumptions:

(shown in percentages)	2019	2018
Inflation	2.5%	3%
Investment rate of return	6.75	7.25
Projected salary increases	3.7-6.0	3.8-6.2
Cost-of-living adjustments	2	2

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used as of June 30, 2019 and 2018 were based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The long-term expected investment rate of return assumption for UCRP was determined in 2015 based on a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption as of June 30, 2019 and 2018 are summarized in the following table:

(shown in percentages)	Target Allocation	Long-Term Expected Real Rate of Return
ASSET CLASS		
U.S. equity	27.6%	5.6%
Developed international equity	16.8	6.5
Emerging market equity	5.6	8.6
Core bonds	13.0	1.5
High yield bonds	2.5	3.7
TIPS	2.0	1.2
Emerging market debt	2.5	3.9
Private equity	10.0	9.2
Real estate	7.0	6.6
Absolute return	10.0	3.3
Real assets	3.0	5.6
Total	**100.0%**	**5.4%**

Discount rate

The discount rate used to estimate the net pension liability as of June 30, 2019 and 2018 was 6.75 and 7.25 percent respectively. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRS has sufficient cash in future periods for projected benefit payments for current members. For this purpose, University, state and member contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected University and member contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2019 and 2018.

Sensitivity of the net pension liability to the discount rate assumption

The following presents the June 30, 2019 net pension liability of the University calculated using the June 30, 2019 discount rate assumption of 6.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
UCSF Health	$2,687,573	$1,643,970	$785,084
Campus	2,575,445	1,575,382	752,330
Total	**$5,263,018**	**$3,219,352**	**$1,537,414**

Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources for the years ended June 30:

(in thousands of dollars)	2019			2018
	UCSF Health (excl. BCHO)	Campus	Total	Total
DEFERRED OUTFLOWS OF RESOURCES				
Changes of assumptions or other inputs	$553,224	$530,143	$1,083,367	$84,178
Net difference between projected and actual earnings on pension plan investments				
Changes in proportion and differences between location's contributions and proportionate share of contributions	78,965	17,531	96,496	109,661
Difference between expected and actual experience	43,118	41,319	84,437	44,847
Total deferred outflows of resources	**$675,307**	**$588,993**	**$1,264,300**	**$238,686**
DEFERRED INFLOWS OF RESOURCES				
Difference between expected and actual experience	$10,628	$697	$11,325	$10,179
Changes of assumptions or other inputs				
Net difference between projected and actual earnings on pension plan investments	727	10,185	10,912	39,723
Changes in proportion and differences between location's contributions and proportionate share of contributions		14,388	14,388	31,523
Total deferred inflows of resources	**$11,355**	**$25,270**	**$36,625**	**$81,425**

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2019 related to pensions that will be recognized in pension expense during the next five years are as follows:

(in thousands of dollars)	UCSF Health (excl. BCHO)	Campus	Total
Year ending June 30,			
2020	$225,736	$182,261	$407,997
2021	121,864	93,990	215,854
2022	173,190	153,211	326,401
2023	143,159	134,261	277,420
2024			
Total	**$663,949**	**$563,723**	**$1,227,672**

The UCRSP plans (DC Plan, Supplemental DC Plan, 403(b) Plan and 457(b) Plan) provide savings incentives and additional retirement security for all eligible employees. The DC Plan accepts both pretax and after-tax employee contributions. The Supplemental DC Plan accepts employer contributions on behalf of certain qualifying employees. The 403 (b) and 457(b) Plans accept pretax employee contributions and UCSF may also make contributions on behalf of certain members of management. Benefits from the Plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Children's Hospital and Research Center Oakland Pension Plan (CHRCO Pension Plan)

CHRCO has a noncontributory defined benefit plan subject to the single employer defined benefit under ERISA rules that covers active and retired employees. The CHRCO Pension Plan was amended effective January 1, 2012 to exclude unrepresented employees hired or rehired on or after January 1, 2012. The CHRCO Pension Plan provides retirement, disability and death benefits to plan participants. Benefits are based on a participant's length of service, age at retirement and average compensation as defined by the CHRCO Pension Plan.

The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2019 and 2018:

(shown in percentages)	2019	2018
Inflation	3.0%	3.0%
Investment rate of return	7.0	7.0
Projected salary increases	4.0	4.0

CHRCO recognized pension expense of $27 million and $22 million for the years ended June 30, 2019 and 2018, respectively.

The actuarial assumptions used in the June 2019 valuation were based on the results of an extensive review conducted during 2019. In 2019, mortality rates were based on the RP-2014 mortality (base year 2006) with fully generational projected mortality improvements using projection scale MP-2018.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an experience review conducted during 2017. In 2018, mortality rates were based on the RP-2016 mortality with fully generational projected mortality improvements using modified scale MP-2016. The MP-2016 projection scale was modified for this valuation to utilize the Social Security administration's intermediate cost projection scale and a 15-year convergence period.

Additional information on the CHRCO Pension Plan can be found in the annual reports, which can be obtained by contacting CHRCO.

Membership in the CHRCO plan at June 30, 2019 was 4,039 total members consisting of 1,031 retirees and beneficiaries receiving benefits, 1,152 inactive members entitled to but yet not receiving benefits and 1,856 active members.

Contributions

Employer contributions are determined under IRC Section 430. Employees are not required or permitted to contribute to the Plan.

CHRCO net pension liability

The net pension liability for CHRCO was measured as of June 30, 2019 and 2018 and the total pension liability was determined by an actuarial valuation as of January 1, 2019 and 2018 rolled forward to June 30, 2019 and 2018, respectively. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are as follows:

(shown in percentages)	Portfolio Percentage	Long-Term Expected Real Rate of Return
ASSET CLASS		
U.S. equity	49.3%	4.3%
Developed international equity	11.6	5.9
Emerging market equity	1.5	8.4
Core fixed income	37.6	2.2
Total	**100.0%**	

CHRCO discount rate

The discount rate used to measure the total pension liability was 7.0 percent for June 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumes that CHRCO will make contributions to the Plan under IRC Section 430's minimum requirements for a period of eight years, and that all future assumptions are met. Based on these assumptions, the pension Plan's fiduciary net position is projected to be available to make all projected future benefit payments for current active and inactive employees.

CHRCO sensitivity of the net pension liability to the discount rate assumption

The following presents the June 30, 2019 net pension liability calculated using the June 30, 2019 discount rate assumption of 7 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% Decrease (6.0%)	Current Discount (7.0%)	1% Increase (8.0%)
Net pension liability (asset)	$84,367	$11,725	($48,305)

CHRCO deferred outflows of resources and deferred inflows of resources

As of June 30, deferred outflows and inflows of resources were as follows:

(in thousands of dollars)	2019	2018
DEFERRED OUTFLOWS OF RESOURCES		
Difference between expected and actual experience	$8,106	$5,714
Changes of benefit terms	94	178
Changes of assumptions	9,550	15,659
Net difference between projected and actual earnings on pension plan investments	2,506	
Total deferred outflows of resources	**$20,256**	**$21,551**
DEFERRED INFLOWS OF RESOURCES		
Difference between expected and actual experience	$1,050	$1,709
Net difference between projected and actual earnings on pension plan investments	7,993	267
Total deferred inflows of resources	**$9,043**	**$1,976**

University of California Retirement Savings Program (UCRSP)

UCRSP includes four defined contribution plans providing savings incentives and additional retirement security for all eligible employees:

- Defined Contribution Plans (Defined Contribution Plan and Supplemental Defined Contribution Plan)
- Tax Deferred 403(b) Plan
- 457(b) Deferred Compensation Plan
- University of California Public Employees Retirement System-Voluntary Early Retirement Incentive Program Plan (PERS-VERIP)

The Defined Contribution Plan accepts both pre-tax and after-tax employee contributions. The Supplemental Defined Contribution Plan accepts employer contributions on behalf of certain qualifying employees. The 403(b) and 457(b) Plans accept pre-tax employee contributions, and UCSF may also make contributions on behalf of certain members of management. PERS-VERIP is a defined benefit plan providing lifetime supplemental retirement income and survivor benefits. Benefits from the plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Information related to plan assets and liabilities for UCSF is not readily available. Additional information on the retirement plans can be obtained from the 2018-2019 Annual Reports of the University of California Retirement Plan, the University of California Retirement Savings Program, and the University of California PERS-VERIP at https://www.ucop.edu/financial-accounting/financial-reports/retirement-system-annual-reports.html.

12. Retiree Health Plans

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees (and their eligible family members) of the University of California and its affiliates through the University of California Retiree Health Benefit Trust (UCRHBT). The Regents has the authority to establish and amend the plan.

Campus and medical center contributions toward retiree health benefits, at rates determined by the University, are made to UCRHBT. The University receives retiree health contributions from retirees that are deducted from their UCRP benefit payments. The University acts as a third-party administrator on behalf of UCRHBT and pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees. UCRHBT reimburses the University for these amounts. Additional information on the retiree health plans can be obtained from the 2018-2019 annual reports of the University of California at http://reportingtransparency.universityofcalifornia.edu/.

Benefits

Retirees are eligible for medical and dental benefits. The costs of the medical and dental benefits are shared between the University and the retiree. The University does not contribute toward the cost of other benefits available to retirees. Retirees who are employed by the University after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the University's contribution based on age and years of service. Retirees are eligible for the maximum University contribution at age 65 with 20 or more years of service. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least 5 years of service. Retirees employed by the University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service. Retirees pay the excess, if any, of the premium over the applicable portion of the University's contribution.

Contributions

The University does not pre-fund retiree health benefits and instead provides for benefits based upon projected pay-as-you-go financing. University and retiree contributions toward premiums made under purchased plan arrangements are determined by applying the health plan contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the University based upon a trend analysis of the historic cost, utilization, demographics and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability. The assessment rates were $2.70 and $2.80 per $100 of UCRP covered payroll effective July 1, 2018 and 2017, respectively.

In addition to the explicit University contribution provided to retirees, there is an "implicit subsidy." The gross premiums for members that are not currently eligible for Medicare benefits are the same for active employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than active employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for active employees by the University are subsidizing the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with retiree health costs paid during the past year is also considered to be a contribution from the University.

Net Retiree Health Benefits Liability

UCSF's proportionate share of the University's net retiree health benefits liability as of June 30 is as follows:

(in thousands of dollars)	2019		2018	
	Proportion of net retiree health benefits liability	Proportionate share of net retiree health benefits liability	Proportion of net retiree health benefits liability	Proportionate share of net retiree health benefits liability
UCSF Health (excl. BCHO)	10.1%	$1,945,198	9.8%	$1,789,855
Campus	8.8	1,697,568	8.5	1,548,937
Total	**18.9%**	**$3,642,766**	**18.3%**	**$3,338,792**

The University's net retiree health benefits liability was measured as of June 30 based on rolling forward the results of the actuarial valuations as of July 1, one year prior to the measurement date. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future.

Significant actuarial methods and assumptions used to calculate the University's net retiree health benefits liability were:

(shown in percentages)	2019	2018
Discount rate	3.5%	3.9%
Inflation	2.5	3.0
Investment rate of return	2.5	3.0
Health care cost trend rates	Initially ranges from 4.4 to 9.4 decreasing to an ultimate rate of 4.0 for 2077 and later years	Initially ranges from 5.0 to 9.3 decreasing to an ultimate rate of 5.0 for 2033 and later years

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions were changed in 2019 based upon the results of an experience study conducted for the period July 1, 2014 through June 30, 2018. For pre-retirement mortality rates, the Pub-2010 Teacher Employee Headcount-Weighted Above-Median Mortality Table were used. For post-retirement, healthy mortality rates were based on the Pub-2010 Healthy Teacher Retiree Headcount-Weighted Above-Median Mortality Table and multiplied by 90 percent for faculty members or 115 percent and 110 percent for other male and female members, respectively. For beneficiaries of retired members, rates were based on the Pub-2010 Contingent Survivor Headcount-Weighted Above-Median Mortality Table. For disable members, rates were based on the Pub-2010 Non-Safety Disabled Retiree-headcount Weighted Mortality Table. All morality rates are projected generationally with the two dimensional mortality improvement scale MP-2018.

Sensitivity of net retiree health benefits liability to health care cost trend rate

The following presents the June 30, 2019 net retiree health benefits liability of the UCSF calculated using the June 30, 2019 health care cost trend rate assumption with initial trend ranging from 4.4 percent to 9.4 percent grading down to an ultimate trend of 4.0 percent over 58 years, as well as what the net retiree health benefits liability would be if it were calculated using a health care cost trend rate different than the current assumption:

(in thousands of dollars)	1% Decrease (3.4% to 8.4% decreasing to 3.0%)	Current Discount (4.4% to 9.4% decreasing to 4.0%)	1% Increase (5.4% to 10.4% decreasing to 5.0%)
UCSF Health	$1,602,603	$1,945,198	$2,399,378
Campus	1,398,552	1,697,568	2,093,878
Total	**$3,001,155**	**$3,642,766**	**$4,493,256**

Discount rate

The discount rate used to estimate the net retiree health benefits liability as of June 30, 2019 and 2018 was 3.5 percent and 3.9 percent, respectively. The discount rate was based on the Bond Buyer 20-year tax-exempt general obligations municipal bond index rate since UCHRBT plan assets are not sufficient to make benefit payments.

Sensitivity of net retiree benefits liability to the discount rate assumption

The following presents the June 30, 2019 net retiree health benefits liability of the UCSF calculated using the June 30, 2019 discount rate assumption of 3.5 percent, as well as what the net retiree health benefits liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% Decrease (2.5%)	Current Discount (3.5%)	1% Increase (4.5%)
UCSF Health	$2,329,167	$1,945,198	$1,643,354
Campus	2,032,606	1,697,568	1,434,114
Total	**$4,361,773**	**$3,642,766**	**$3,077,468**

Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources and deferred inflows of resources for retiree health benefits were related to the following sources as of the years ended June 30:

(in thousands of dollars)	2019			2018
	UCSF Health (excl. BCHO)	Campus	Total	Total
DEFERRED OUTFLOWS OF RESOURCES				
Changes in proportion and differences between location's contributions and proportionate share of contributions	$262,776	$62,730	$325,506	$246,431
Changes of assumptions or other inputs	378,374	330,197	708,571	611,053
Net difference between projected and actual earnings on plan investments	326	284	610	698
Difference between expected and actual experience	6,522	5,692	12,214	13,675
Total deferred outflows of resources	**$647,998**	**$398,903**	**$1,046,901**	**$871,857**
DEFERRED INFLOWS OF RESOURCES				
Changes in proportion and differences between location's contributions and proportionate share of contributions		$89,702	$89,702	$103,968
Changes of assumptions or other inputs	$280,912	245,145	526,057	589,107
Difference between expected and actual experience	300,136	261,921	562,057	416,842
Total deferred inflows of resources	**$581,048**	**$596,768**	**$1,177,816**	**$1,109,917**

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2019 related to retiree health benefits that will be recognized in retiree health benefit expense during the next five years and thereafter are as follows:

(in thousands of dollars)	UCSF Health (excl. BCHO)	Campus	Total
Year ending June 30,			
2020	$19,400	($25,363)	($5,963)
2021	19,365	(25,393)	(6,028)
2022	19,323	(25,429)	(6,106)
2023	19,285	(25,463)	(6,178)
2024	7,319	(35,905)	(28,586)
Thereafter	(17,742)	(60,312)	(78,054)
Total	**$66,950**	**($197,865)**	**($130,915)**

13. Endowments and Foundation Gifts

Endowments and gifts are administered either by the University, UCSF Foundation or BCHO Foundation.

The book value and market value for endowments for the years ended June 30, 2019 and 2018 are as follows:

(in thousands of dollars)	2019		2018	
	Book Value	Market Value	Book Value	Market Value
Endowments - The Regents	$1,069,153	$2,045,984	$912,460	$1,778,328
Endowments - The Foundation	1,356,021	1,602,091	1,185,125	1,432,799
Endowments - BCHO Foundation	237,114	243,152	227,270	234,375
Total endowments	**$2,662,288**	**$3,891,227**	**$2,324,855**	**$3,445,502**

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made.

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 $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.

14. Segment Information

UCSF Health revenues are pledged in support of the outstanding University of California Medical Center Pooled Revenue Bonds. UCSF Health's operating revenues and expenses consist primarily of revenues associated with patient care and the related costs of providing that care.

Condensed financial statement information for UCSF Health is as follows:

(in thousands of dollars)	2019	2018
Revenue bonds outstanding	$906,245	$910,600
Related debt service payments	56,641	56,315
Bonds due serially through	2,049	2,049
CONDENSED STATEMENTS OF NET POSITION ASSETS		
Current assets	1,896,612	1,648,154
Capital assets, net	2,427,895	2,375,485
Other assets	334,053	293,397
Total assets	**4,658,560**	**4,317,036**
DEFERRED OUTFLOWS OF RESOURCES	1,352,434	775,863
LIABILITIES		
Current liabilities	708,871	655,904
Long-term debt	917,096	922,666
Pension obligations	2,086,802	1,279,589
Retiree health benefits obligations	1,945,198	1,789,855
Other noncurrent liabilities	38,505	35,793
Total liabilities	**5,696,472**	**4,683,807**
DEFERRED INFLOWS OF RESOURCES	617,396	583,859
NET POSITION		
Net investment in capital assets	1,505,229	1,447,759
Restricted	97,383	77,245
Unrestricted	(1,905,486)	(1,699,771)
Total net position	**($302,874)**	**($174,767)**

(in thousands of dollars)	2019	2018
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues	$4,819,214	$4,370,406
Operating expenses	(4,746,178)	(4,025,824)
Depreciation expense	(212,222)	(216,292)
Operating income	**(139,186)**	**128,290**
Nonoperating revenue	44,172	46,189
Income before other changes in net position	**(95,014)**	**174,479**
Heath systems support	(146,232)	(116,286)
Changes in allocation for pension payable to University	(14,359)	(3,175)
Other, including donated assets	127,498	137,921
Increase in net position	**(128,107)**	**192,939**
NET POSITION		
Beginning of year, as previously reported	(174,767)	(367,706)
Cumulative effect of reporting entity changes		
Beginning of year, as restated	(174,767)	(367,706)
End of year	**($302,874)**	**($174,767)**

(in thousands of dollars)	2019	2018
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$431,764	$380,406
Noncapital financing activities	(105,869)	(78,010)
Capital and related financing activities	(176,740)	(134,092)
Investing activities	(25,986)	28,383
Net increase in cash	**123,169**	**196,687**
Cash and cash equivalents, beginning of year	823,411	626,724
Cash and cash equivalents, end of year	**$946,580**	**$823,411**

15. Commitments and Contingencies

Contractual Commitments

UCSF have entered into various construction contracts. The remaining costs of UCSF projects, excluding interest, as of June 30, 2019 are estimated to be approximately $402 million.

Under an agreement with a private, non-profit hospital, UCSF Health paid in contributions $90 million in aggregate capital investments through a series of newly formed joint ventures with the hospital over the course of the initial 10 years of the agreement. As of June 30, 2019, UCSF Medical Center deposited $30 million to a designated bank account for this purpose with the amount reported as prepaid expenses and other assets. An additional service agreement was signed for UCSF Medical Center to operate certain outpatient clinics whose sole corporate member is the same non-profit hospital.

Future minimum payments on operating leases with an initial or remaining non-cancellable term in excess of one year are as follows:

(in thousands of dollars)	UCSF
Year ending June 30,	
2020	$71,595
2021	65,584
2022	51,483
2023	42,310
2024	35,829
Thereafter	144,435
Total	**$411,236**

Contingencies

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs, and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. UCSF management believes that any liabilities arising from such audits will not have a material effect on its financial position.

UCSF are contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, UCSF management and general counsel are of the opinion that the outcome of such matters will not have a material effect its financial position.

16. Operating Expenses by Function

Operating expenses, by functional classification, for the years ended June 30 are as follows:

(in thousands of dollars)	2019	2018
Instruction	$394,972	$342,799
Research	1,286,273	1,136,224
Public service	166,678	149,534
Academic support	349,087	345,189
Student services	33,468	25,059
Institutional support	252,118	207,337
Operations and maintenance of plant	66,399	80,645
Student financial aid	26,036	23,586
Medical center	4,769,129	3,945,015
Auxiliary enterprises	42,718	34,678
Depreciation	348,868	349,096
Impairment of capital assets	30	799
Total operating expenses	**$7,735,776**	**$6,639,961**

UCSF is a collection of dedicated scientists, clinicians, students and staff who share a common drive to make the world a better place by advancing health and the human condition.

UCSF

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Consolidated Audited Financial Reports and A-133 Audit Reports for the University of California are located at: http://reportingtransparency.universityofcalifornia.edu