U.C. SAN DIEGO FOUNDATION

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

U.C. SAN DIEGO FOUNDATION

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
U.C. San Diego Foundation:

We have audited the accompanying financial statements of U.C. San Diego Foundation (the Foundation), a component unit of the University of California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2014, and the changes in its net position and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

June 30, 2013 Financial Statements

The accompanying financial statements of the Foundation as of June 30, 2013 and for the year then ended were audited by other auditors whose report thereon dated September 30, 2013 expressed an unmodified opinion on those financial statements. As part of our audit of the 2014 financial statements, we also audited certain adjustments to the 2013 financial statements described in note 2(n). In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2013 financial statements of the Foundation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Orange County, California
October 2, 2014

The U.C. San Diego Foundation (the Foundation) encourages, accepts, and manages charitable gifts for the benefit of the University of California, San Diego (UC San Diego) campus. The Foundation is governed by a board of trustees comprised of the campus' closest alumni, friends, and community members. Gifts are also made to UC San Diego through The Regents of the University of California and are not included in these statements.

The following discussion and analysis presents an overview of the Foundation's financial performance for the fiscal year ended June 30, 2014, with selected comparative information for the years ended June 30, 2013 and 2012. This discussion and analysis has been prepared by management and should be read in conjunction with the accompanying audited basic financial statements and notes.

Financial Highlights

During fiscal year 2014, the Foundation's net position, which represents the excess of total assets over liabilities, increased by $77.8 million. This is compared to an increase in net position during fiscal year 2013 of $58.1 million and a decrease during fiscal year 2012 of $16.3 million.

The increase in net position in fiscal years 2014 and 2013 resulted from a single primary factor, which was the overall financial markets and the resulting investment-related returns. The Foundation's primary investment portfolio and permanent asset base, the endowment pool, had a net total return of 18.1% as of June 30, 2014, compared to 12.0% for fiscal year 2013. During fiscal year 2012, the return was (0.70)%; the essentially flat return coupled with fund outflows to the campus caused the net position decrease.

The Foundation expects fluctuations in contribution revenues for both current and endowment funds, and investment results from year to year. The Foundation manages the endowment portfolio with a long-term philosophy of capital appreciation. Very significant contributions, including bequests, are periodically received from donors as a result of relationships cultivated over many years. The timing of these contributions is not entirely predictable, and often will correlate with a campus initiative.

Presentation and Using this Report

This annual report consists of a series of financial statements prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board using the accrual basis of accounting. These statements focus the reader of the financial reports on the organization's overall financial condition, and changes in net position and cash flows, taken as a whole.

The key to understanding the changes in the financial outcomes for the Foundation are the statements of net position; statements of revenues, expenses, and changes in net position; and the statements of cash flows. These statements present financial information in a form similar to that used by private sector companies. The Foundation's net position (the difference between assets and liabilities) is one indicator of the Foundation's financial health, when considered in combination with other nonfinancial information.

The statements of net position includes all assets and liabilities. The statements of revenues, expenses, and changes in net position reports the revenues earned and the expenses incurred during the year as either operating or nonoperating. Incoming gifts and grants made to the campus are reported as operating revenue and expense, respectively, and investment results are reported as nonoperating income or expense.

Condensed Schedules of Net Position

	June 30					
	2014		2013		2012	
			(Dollars in thousands)			
Assets:						
Current assets	$ 97,283	13%	$ 123,610	19%	$ 105,235	18%
Noncurrent assets	633,596	87	530,663	81	490,802	82
Total assets	730,879	100%	654,273	100%	596,037	100%
Liabilities:						
Current liabilities	3,334	21%	3,101	18%	3,156	18%
Noncurrent liabilities	12,895	79	14,328	82	14,119	82
Total liabilities	16,229	100%	17,429	100%	17,275	100%
Total net position	$ 714,650		$ 636,844		$ 578,762	

The condensed schedules of net position reflects the assets, liabilities, and net position for fiscal years 2014, 2013, and 2012. As of June 30, 2014, the Foundation's total assets increased by $76.6 million or 11.7% versus June 30, 2013. Total assets increased by $58.2 million or 9.8% as of June 30, 2013 versus June 30, 2012.

Current assets decreased by $26.3 million during fiscal year 2014 and represented 13% of total assets, versus 19% in 2013 and 18% in 2012. Current assets consist of cash, short-term investments, and the portion of pledges receivable due within one year. Current assets will fluctuate depending on the timing gifts received versus the timing of both investment activity and transfers of funds to the campus for the purposes the donors intend.

Noncurrent assets consist of long-term investments (primarily endowment), notes receivable due beyond one year, as well as the portion of pledges receivable due beyond one year. Noncurrent assets increased by $102.9 million during fiscal year 2014 and represented 87% of total assets, versus 81% in 2013 and 82% in 2012. Growth in the endowment value by virtue of new gifts and investment returns over the course of these years is the primary reason for the increasing percentage of the noncurrent assets versus total assets

As of June 30, 2014, the Foundation's total liabilities decreased by approximately 6.9% or $1.2 million from June 30, 2013, while there was relatively little change between fiscal years 2013 and 2012. Current liabilities comprise amounts payable to the campus for grants and transfers as of year-end, and the current portion of liabilities to trust and life income beneficiaries. Current liabilities tend to be fairly level from year to year. Noncurrent liabilities comprise the long-term portion of the liability due to life income beneficiaries and gift fees payable beyond one year. During fiscal year 2014, a significant charitable remainder trust matured and the related liability was eliminated, resulting in the reduction in the noncurrent liability.

Condensed Schedules of Revenues, Expenses, and Changes in Net Position

	Year ended June 30		
	2014	**2013**	**2012**
		(Dollars in thousands)	
Operating revenues	$ 61,126	47,728	35,317
Operating expenses	(79,388)	(68,367)	(61,247)
Operating loss	(18,262)	(20,639)	(25,930)
Nonoperating income	85,132	48,250	(521)
Net revenues (loss) before contributions to permanent endowments	66,870	27,611	(26,451)
Contributions to permanent endowments	10,936	30,471	10,160
Change in net position	77,806	58,082	(16,291)
Net position:			
Beginning of year	636,844	578,762	595,053
End of year	$ 714,650	636,844	578,762

The condensed schedules of revenues, expenses, and changes in net position reflect operating and nonoperating revenue and expense, and contributions to permanent endowments, for fiscal years 2014, 2013, and 2012.

Operating revenue for the Foundation consists of expendable charitable contributions recognized, and totaled $61.1 million for fiscal year 2014. This was an increase over fiscal year 2013 of $13.4 million, and an increase from fiscal year 2012 of $25.8 million. During fiscal year 2014, several significant pledges were recorded and recognized, a charitable remainder trust matured as noted previously, and there was an increase in giving due to the Jacobs Medical Center Challenge Match. The increase in contributions during fiscal year 2013 over fiscal year 2012 was primarily due to the receipt of several large bequests during the year.

Operating expense consists primarily of grants made to UC San Diego of expendable contributions and accumulated endowed payout for the many purposes intended by the donors. The transfers are made as the various campus beneficiaries request the funds. Nearly every area of the campus is a beneficiary of a Foundation fund, therefore, these grants support many purposes as noted in note 7. The timing of grants to the campus typically lags the timing of the incoming contribution revenue and endowed payout. The lag can be a short-time period or several years. A longer lag will occur if expendable gifts or endowed payout is purposefully accumulating to allow the benefitting campus area to cover a cost that will require the use of several years of gifts or payout. In addition, endowed payout is not recognized as operating revenue, but operating expense includes the transfer of payout to the campus. Due to these factors, and similar to fiscal years 2013 and 2012, in fiscal year 2014, grants made to the campus exceeded recognized contribution revenue, resulting in an operating loss.

Net nonoperating revenues (loss) relates primarily to the Foundation's endowment investment portfolio returns. The Foundation uses a balanced and diversified approach to its endowment asset mix within a stated policy. In any one year, certain components of the portfolio may perform better than others. During fiscal years 2014 and 2013, all asset class components of the endowment portfolio had positive returns, with the equity components being the largest contributors to return. During fiscal year 2012, the asset class components provided mixed results, with the domestic equity component producing lower returns than in fiscal years 2013 and 2014 and in particular, the international equity component contributing negative returns. The results overall provided net nonoperating revenues in both fiscal years 2014 and 2013, and a small nonoperating loss in fiscal year 2012.

The Foundation places a high priority on increasing the gifts to and the return on the endowment. The size of the endowment and the resulting annual payout correlates directly with being able to provide permanent resources for the benefit of UC San Diego. Endowed gifts received in fiscal year 2014 were $10.9 million, compared to $30.5 million and $10.2 million in fiscal years 2013 and 2012, respectively. As mentioned previously, the timing of these gifts is somewhat unpredictable and will vary from year to year. Several large bequests along with other significant outright gifts were received in 2013 to create 10 new endowed chairs and other endowed funds.

Factors Impacting Future Periods

Factors that can significantly impact future periods include the state of the overall economy and the financial markets. Both factors impact charitable giving and the value of investments. The board of trustees of the Foundation monitors the status of the economy, its impact on overall giving, pledges receivable, and the investment pools.

Charitable support is an increasingly important resource to UC San Diego. In the future, the Foundation anticipates both growth in the endowment as the permanent base of assets, and a higher rate of both incoming expendable and planned gifts and the use of expendable funds (contributions and endowed payout) to benefit UC San Diego.

Management is not aware of any other factors within management's control that would have a significant impact on future periods.

U.C. SAN DIEGO FOUNDATION

Statements of Net Position

June 30, 2014 and 2013

(In thousands of dollars)

		2014	2013
Assets			
Current assets:			
Cash and cash equivalents	$	1,612	1,000
Short-term investments		71,674	103,286
Pledges receivable, net		23,887	18,817
Notes receivable		—	470
Other assets		110	37
Total current assets		97,283	123,610
Noncurrent assets:			
Long-term investments		584,985	474,746
Pledges receivable, net		48,039	55,354
Notes receivable, net		282	—
Other assets		290	563
Total noncurrent assets		633,596	530,663
Total assets		730,879	654,273
Liabilities			
Current liabilities:			
Accounts payable		1,361	920
Agency funds		177	47
Liabilities to life beneficiaries, current portion		1,796	2,134
Total current liabilities		3,334	3,101
Noncurrent liabilities:			
Liabilities to life beneficiaries, net of current portion		12,332	13,766
Other noncurrent liabilities		563	562
Total noncurrent liabilities		12,895	14,328
Total liabilities		16,229	17,429
Net position			
Restricted:			
Nonexpendable:			
Endowments corpus		326,261	312,617
Trusts and other life income funds		6,374	5,061
Expendable:			
Endowment income and net appreciation		166,024	111,664
Trusts and other life income funds		4,312	6,763
Funds functioning as endowments		31,941	27,426
Restricted gift funds		166,575	161,614
Unrestricted		13,163	11,699
Total net position	$	714,650	636,844

See accompanying notes to financial statements.

U.C. SAN DIEGO FOUNDATION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(In thousands of dollars)

		2014	2013
Operating revenues:			
Contributions, net	$	61,126	47,728
Total operating revenues		61,126	47,728
Operating expenses:			
Grants to campus for programs		79,324	68,307
Administrative and other operating expenses		64	60
Total operating expenses		79,388	68,367
Operating loss		(18,262)	(20,639)
Nonoperating revenues (expenses):			
Investment income, net		6,434	6,639
Change in fair value of investments		79,835	42,339
Change in calculated value of liabilities to life beneficiaries		(1,138)	(729)
Other nonoperating income		1	1
Total nonoperating revenues, net		85,132	48,250
Income before contributions to permanent endowments		66,870	27,611
Contributions to permanent endowments		10,936	30,471
Increase in net position		77,806	58,082
Net position:			
Beginning of year		636,844	578,762
End of year	$	714,650	636,844

See accompanying notes to financial statements.

U.C. SAN DIEGO FOUNDATION

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands of dollars)

		2014	2013
Cash flows from operating activities:			
Receipts from contributions	$	53,982	53,352
Payments to campus		(78,794)	(67,450)
Other payments, net		(1,566)	(1,571)
Net cash used in operating activities		(26,378)	(15,669)
Cash flows from noncapital financing activities:			
Private gifts for permanent endowments		8,207	11,925
Net cash provided by noncapital financing activities		8,207	11,925
Cash flows from investing activities:			
Proceeds from sale and maturities of investments		100,154	79,313
Purchases of investments		(87,738)	(84,270)
Investment income, net of investment expense		6,367	6,607
Net cash provided by investing activities		18,783	1,650
Net increase (decrease) in cash and cash equivalents		612	(2,094)
Cash and cash equivalents:			
Beginning of year		1,000	3,094
End of year	$	1,612	1,000
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(18,262)	(20,639)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Noncash gifts		(9,576)	(9,563)
Allowance on pledges		(173)	(170)
Changes in operating assets and liabilities:			
Pledges receivable, net		2,418	15,388
Notes receivable, net		187	(32)
Accounts payable		460	545
Liabilities to life beneficiaries		(1,432)	(1,198)
Net cash used in operating activities	$	(26,378)	(15,669)
Supplemental noncash activities:			
Contributions of securities for expendable funds	$	3,310	9,358
Residual income from matured life income gifts		6,248	181
Other noncash contributions for expendable funds		18	24
Total noncash gifts for expendable funds	$	9,576	9,563
Contributions of securities for permanent endowments	$	3,002	17,233
Residual income from matured life income gifts		—	1,563
Other noncash gifts for permanent endowments		(273)	(249)
Total noncash gifts for permanent endowments	$	2,729	18,547

See accompanying notes to financial statements.

(1) Organization

The U.C. San Diego Foundation (the Foundation) was formed in 1972 as a California nonprofit corporation and is governed by a 42 member board of trustees, the membership of which includes the Chancellor of UC San Diego, the Vice Chancellor of Advancement and a faculty representative. The primary purpose of the Foundation is to encourage and manage charitable donations to provide financial support for the University of California, San Diego (UC San Diego). As a public charity, the Foundation accepts donations to enhance the campus' teaching, research, and public service programs, as well as to support capital projects and other related campus improvements. Upon dissolution, liquidation, or winding-up of the Foundation, the assets remaining after all debts have been satisfied, shall be distributed, transferred, conveyed, delivered, and paid over to The Regents of the University of California for the benefit of the San Diego campus as provided in the Foundation's Articles of Incorporation, provided the Regents of the University of California have maintained tax-exempt status under the Internal Revenue Code and relevant California laws.

Oversight by the University of California

The Foundation is subject to the policies and procedures of The Regents of the University of California (The Regents). All contributions to the Foundation ultimately benefit UC San Diego. Accordingly, the Foundation is considered a governmental not-for-profit organization subject to reporting under the Governmental Accounting Standards Board (GASB), and as a result is reported as a component unit of the campus and The Regents. The Regents established the *Policy and Administrative Guidelines for Campus Foundations*, which requires that the Foundation transfer contributed expendable funds and endowment payout to UC San Diego for ultimate expenditure in compliance with donor restrictions on gifts. Contributions that are made directly to The Regents for the benefit of UC San Diego are not recorded by the Foundation and are not reflected in the accompanying financial statements; they are reflected in the financial statements of the University of California (the University).

UC San Diego provides the facilities, personnel and operating budget for the Foundation. All pension and postretirement benefit expenses and liabilities related to these personnel provided are recorded on the financial statements of UC San Diego.

Per UC San Diego campus policies, the Foundation remits a gift fee of 6% on each gift, as well as the short-term interest earnings on its expendable gift and accumulated endowment payout balances to the campus. These resources help support the administrative costs of the campus and in particular those related to advancement. In addition, per a Foundation policy, as permitted by law, an noninvestment endowment cost recovery fee is assessed annually on the endowment (and taken from payout) to offset campus costs of administering the endowment. The gift fee, interest earnings, and endowment cost recovery fees are reflected as grants to campus on the statements of revenues, expenses, and changes in net position. The same or similar policies for the gift fee, short-term interest earnings assessment, and endowment cost recovery fees are in place at all University of California campus foundations and for The Regents' gift and endowed funds.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Accounting

The financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting in accordance with the U.S. generally accepted accounting principles as promulgated by the GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The effects of interfund activities have been eliminated from the Foundation’s financial statements.

(b) Classification of Current and Noncurrent Assets and Liabilities

The Foundation considers assets to be current if, as part of its normal business operations, they are held as, or can be converted to, cash and be available for operating needs or payment of current liabilities within 12 months of the date of the statements of net position. Similarly, liabilities are considered to be current if they can be expected, as part of the normal Foundation business operations, to be due and paid within 12 months of the date of the statements of net position. All other assets and liabilities are considered to be noncurrent.

(c) Investments

Investments (including land and real estate held as investments) are reported at fair value. The basis for determining the fair value of investments is the readily determinable sales price or current exchange rate of the investments based on prices or quotations for actively traded markets. In the case of commingled funds, the fair value is determined as the number of units held in the fund multiplied by the price per unit share as quoted (net asset value). Alternative investments, which include private equity, absolute return, and real estate, are valued using net asset value as reported by the respective fund managers. These investments may not be readily marketable and their estimated value is subject to uncertainty. Therefore, the estimated value may differ from the value that would have been used had a ready market for such investments existed.

(d) Pledges Receivable

Pledges receivable are written unconditional promises to make future gifts. The Foundation recognizes a receivable and contribution revenue at the time the pledge is made by the donor if the pledge is verifiable, measurable, probable of collection, and meets all applicable eligibility requirements. These eligibility requirements require 1) The Foundation to be stated as the recipient of the pledge; 2) the pledge is considered available for use and can be sold, disbursed, consumed, or be invested for a term or perpetuity; 3) any contingencies on the pledge are met; and 4) if a reimbursement of expenses, allowable costs have been incurred.

Pledge payments scheduled for collection within one year are recorded as current assets and are not discounted. Pledge payments scheduled to be collected beyond one year are discounted to recognize the present value of the expected future cash flows. In subsequent years, this discount is accreted and recorded as additional contribution revenue in accordance with donor imposed restrictions, if any. In

(Continued)

addition, an allowance for uncollectible pledges is recorded based on management's assessment of the collectibility of outstanding pledges.

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

Pledges for endowments are not recorded as revenue or a pledge receivable at the time the pledge is made, as the funds are not available to be invested in perpetuity as specified by the donor. Revenue is recognized on payments on endowed pledges when the cash is received and is recorded in contributions to permanent endowments.

(e) Donated Property

Donations of investments, real estate, and other nonmonetary items are recorded at their fair value at the date of gift. For gifts of investments, fair value is calculated using an average of the high and low value of the security on the date of receipt in the Foundation's custody account. For gifts of real estate and other nonmonetary items, fair value is determined using an independent appraisal.

(f) Liabilities to Life Beneficiaries

The liabilities for payments to life beneficiaries are calculated and recorded in the financial statements using recent life expectancy tables and certain other estimates in computing a present value of the liability. All income and expenses associated with life income funds are reflected as part of the change in the calculated value of trust and other life income liabilities. Upon the death of the life beneficiaries or at the end of the trust term, the Charitable Remainder Trust (trust) or Charitable Gift Annuity (CGA) contract is terminated, the remaining assets are transferred to the appropriate Foundation fund and revenue is recognized.

(g) Net Position

The Foundation's net position is classified into the following categories:

Restricted Nonexpendable

Endowment corpus comprises the corpus of true-donor-restricted endowed funds. Also included are additions to corpus as required or allowed for by donor's agreements. To the extent that the market value of the corpus is below its historical cost, the decrease is recorded in this category on the statements of net position.

Trusts and other life income funds comprise funds restricted by the donor to establish endowed funds upon death of the donor.

Restricted Expendable

Endowment income and net appreciation include net accumulated appreciation on endowed funds and net accumulated endowment spending allocations.

Trust and other life income funds comprise funds restricted by the donor to be expended for particular programs or specific purposes or functions of the University.

Funds functioning as endowments comprise a combination of funds restricted by the donor for endowment where the donor has allowed the corpus to be spent over time to fund their intended purpose and expendable funds restricted by the donor for a particular purpose that the University has designated for endowment for that purpose in accordance with the University of California systemwide gift allocation policy.

Restricted gifts comprise funds received that the donor restricted to an expendable use to benefit a particular purpose or function of the University.

Unrestricted net position comprises funds not subject to donor-imposed restrictions.

When restricted and unrestricted funds are available for the same purpose, the Foundation generally spends restricted funds first.

(h) Classification of Revenue and Expenses

Operating revenues include expendable contributions from donors. Operating expenses primarily include gift and endowed payout distributions, gift administration fees, and endowed cost recovery remitted to the campus. Gift and endowed payout distributions are remitted to UC San Diego in support of activities consistent with the donor's wishes. See footnote 1 for discussion on gift administration and endowment cost recovery fees.

Nonoperating activities include net income from, and changes in, the fair value of the Foundation's investments. The change in the fair value of investments represents the difference between the fair value of investments at the beginning of the fiscal year and the end of the fiscal year, taking into consideration investment purchases, sales, and redemptions. The calculation of realized gains and losses on the sale of investments is independent of the calculation of the net change in the fair value of investments. Realized gains and losses include transactions arising from the sale of contributed assets and liquidation of investment accounts during the year.

Gifts for permanent endowment purposes are classified as contributions to permanent endowments and are recognized only when received and not in the period pledged.

(i) Endowments and Endowment Payout Policy

The Foundation's endowed funds are managed in a unitized investment pool in accordance with the Foundation's board-approved *Endowment Investment and Spending Policies*. Transactions within each individual endowment in the pool are based on the unit market value at the end of the month during which the transactions take place. Investment decisions are based on a long-term investment strategy intended to preserve investment capital and its purchasing power, meet payout requirements, and maximize the endowment portfolio's long-term total return.

The Foundation's board adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective January 1, 2009, which provides statutory guidance for management, investment, and expenditures of endowed funds. UPMIFA does not distinguish between original corpus, income, and capital appreciation and permits all endowed funds to receive payout as deemed prudent by the Board and within UPMIFA.

The Foundation's board establishes the endowment payout rate annually, giving prudent consideration to asset allocation, expected returns, future capital market assumptions, inflation, other market conditions, and the budgetary needs of the endowment fund holders. The rate used to calculate spending for fiscal years 2014 and 2013 was 4.75% with 0.40% of that used to recover noninvestment-related endowment administration costs. Endowment cost recovery fees are remitted to the University and recorded along with the endowment payout on the accompanying financial statements as grants to campus.

(j) Charitable Remainder Trusts and Charitable Gift Annuities

The Foundation has been designated the trustee for several charitable reminder trusts (the trusts). For these trusts, the fair value of the trust assets and a liability for the future payments to the beneficiary are recorded on the Foundation's financial statements in the year the trusts were given to the Foundation. The trusts are established by donors to provide income, generally for life, to the designated beneficiaries. Each year, beneficiaries receive payments based on a percentage of the trust assets or income as specified in the trust agreement. Each trust is a separate legal entity from the Foundation, and liability for trust payments to the life beneficiaries is limited to the assets of each trust.

The Foundation is licensed by the State of California Department of Insurance as a Grants and Annuities Society, and as such, may issue charitable gift annuity contracts (CGAs). CGAs are planned giving vehicles through which donors gift assets in exchange for fixed annuity payments over the life time of the annuitant(s). Assets contributed are separately invested and are used to fund the payments to the annuitants. The liability for payments to life income beneficiaries under CGA contracts is not limited to the CGA pool of assets, but is a liability of the Foundation itself.

The associated liability for these payments is calculated and recorded in the financial statements using life expectancy tables and certain other estimates to compute a present value of the future payments. All revenue and expenses associated with life income funds are reflected as part of the change in the calculated value of trust and other life income liabilities. Upon the death of the life beneficiaries or at the end of the trust term, the trust or charitable gift annuity contract is terminated, the remaining assets are recorded as contribution revenue and transferred to the appropriate Foundation fund for the purpose designated by the donor.

(k) Agency Affiliation with UC San Diego Alumni Association

The Foundation held and invested funds under an agency relationship with the UC San Diego Alumni Association. The UC San Diego Alumni Association is a legally separate 501(c)(3) support group organized to support various UC San Diego activities primarily for UC San Diego alumni. The Foundation, as the financial fiduciary for these funds, reflects this balance on the financial statements as a current liability. The corresponding assets are included in investments. The Alumni Association's expendable funds totaled approximately $177,000 and $47,000 at June 30, 2014 and 2013, respectively.

(l) Income Taxes

The Foundation is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which it is granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

(m) Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclose contingent assets and liabilities at the date of the financial statements, and report amounts of support, revenue, disbursements, and expenses during the reporting period. Actual results could differ from those estimates.

(n) Correction of Immaterial Error

During the year ended June 30, 2014, it was determined that certain gifts recognized in prior year's financial statements should not have been recognized until the period in which the eligibility criteria under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, had been met. Accordingly, the 2013 financial statements have been adjusted to reduce both contribution revenue by $248,000 and net pledges receivable by $7.8 million for the year ended June 30, 2013, and to reduce net position by $7.5 million and $7.8 million as of July 1, 2012 and June 30, 2013, respectively.

(o) Reclassifications

Certain reclassifications have been made to the 2013 financial information to conform to the 2014 financial statement presentation.

(3) Cash, Cash Equivalents, Short-Term Investments, and Investments

In accordance with GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*, the Foundation's investments are reported by investment type at fair value in the table below. GASB 40 also requires the disclosure of various types of investment risks based on the type of investment, as well as stated policies adopted by the Foundation to manage those risks.

Cash, cash equivalents, short-term investments, and investments consist of the following as of June 30, 2014 and 2013:

		2014	2013
		(Dollars in thousands)	
Cash and cash equivalents:			
Commercial banks and money market funds	$	1,113	781
University of California short-term investment pool		499	219
Total cash and cash equivalents		1,612	1,000
Investments:			
Equity securities – domestic		170	742
Fixed-income investments:			
U.S. Treasury notes		1,944	1,835
U.S. Treasury strips		172	161
U.S. agencies – asset-backed securities		1,419	1,238
Supranational/foreign		686	712
Commingled funds:			
Balanced funds		423,116	327,345
Commodities		1,275	1,124
Absolute return		21,986	30,541
Private equity		8,040	10,763
U.S. equity funds		38,714	31,391
Non-U.S. equity funds		46,806	32,824
Real estate		14,314	13,464
U.S. bond funds		24,689	22,001
Non-U.S. bond funds		466	29
Money market funds		71,317	102,585
Other:			
Real estate		1,140	1,090
Other		405	187
Total investments		656,659	578,032
Total cash, cash equivalents, and investments	$	658,271	579,032
As classified on the statements of net position:			
Current – cash and cash equivalents	$	1,612	1,000
Current – short-term investments		71,674	103,286
Noncurrent – investments		584,985	474,746
Total cash, cash equivalents, and investments	$	658,271	579,032

The Foundation utilizes the UC San Diego campus depository accounts under an agency relationship for its cash banking activity. The Foundation also deposits and maintains cash in various commercial banks and brokerage accounts to meet operating needs. Excess funds are transferred as often as necessary to a primary investment account depending on classification of the funds as expendable or endowed.

The Foundation holds equity, fixed income, and alternative investments. The largest portion of these investments relates to the Foundation's endowment. The investments are managed by the Investment/Finance Committee with board of trustee approval. The Foundation has several investments in external funds and uses several University of California managed commingled funds (UC pooled funds), offered to the campus foundations by the Office of the Chief Investment Officer of the Regents.

Specifically, the Foundation utilizes:

- The General Endowment Pool (GEP), which is a balanced portfolio containing equity, fixed-income, and alternative investments. This fund is used as a core investment vehicle for the Foundation's endowment. The Foundation's investment in this pool is classified as commingled balance funds.
- The UC Absolute Return Pool, two Private Equity Vintage Year Portfolios, and a Vintage Year Real Estate Portfolio.
- The Short-Term Investment Pool (STIP) and Total Return Investment Pool (TRIP) serve as the Foundation's core investment vehicles for expendable funds. STIP is used from time to time as a fixed-income asset in the endowment pool as well. STIP is classified as a money market fund. TRIP is classified as a commingled balanced fund.

Investment Performance

The components of the change in the fair value of investments are as follows:

		2014	2013
		(Dollars in thousands)	
Change in unrealized appreciation on investments	$	72,387	40,731
Realized gain on investments, net		7,448	1,608
Change in fair value of investments	$	79,835	42,339

The Foundation's net income yield on the current use investment pool (STIP and TRIP) for the year ended June 30, 2014 was 2.13%, as compared to 2.09% as of June 30, 2013. The net total return on the Foundation's endowment pool for the year ended June 30, 2014 was 18.1%, as compared to 12.0% for June 30, 2013.

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed-income investments. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed-income investments are particularly sensitive to credit risks and changes in interest rates. The Foundation has established investment policies to provide the basis for the management of a prudent investment program appropriate to the particular fund type.

Credit Risk

Fixed-income investments are subject to credit risk, which is the risk that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline. Certain fixed-income investments, including obligations of the U.S. government, or those explicitly guaranteed by the U.S. government, are considered to have little or no credit risk. The Foundation maintains policies to manage credit risk, which include requiring minimum credit ratings issued by nationally recognized rating organizations.

The State of California Department of Insurance and the Foundation's charitable gift annuity investment policy require that a minimum of 50% of the required reserve be invested in U.S. Treasury and U.S. government agency fixed-income investments of any maturity.

The credit risk profile for fixed-income investments at June 30, 2014 and 2013 is as follows:

		2014	2013	Credit rating
		(Dollars in thousands)		
Fixed-income investments				
U.S. government guaranteed	$	2,116	1,996	AAA
U.S. agencies		1,419	1,238	AAA
Supranational/foreign		686	712	AA/AAA
		4,221	3,946	
Commingled funds:				
U.S. bond funds		24,689	22,001	Not Rated
Non-U.S. bond funds		466	29	Not Rated
Money market funds – STIP		71,317	102,585	Not Rated
		96,472	124,615	
Total fixed-income investments	$	100,693	128,561	

Custodial Credit Risk – Deposits and Investments

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

The Foundation's board has chosen to use the various pooled investment vehicles managed by the Office of the Chief Investment Officer of the Regents as core investments for the endowment and expendable funds. These pools are considered to be investments in external pools and are not exposed to custodial credit risk because their existence is not evidenced by investments that exist in physical or book entry form. Similarly, the investment accounts held at State Street Global Advisors are also externally managed pools, and the assets are held in custody or trust and would not be available to State Street's creditors because they are excluded from the assets of the custodian.

It is the policy of the Foundation that all other direct investments made by the Foundation be held in custodial accounts, and the securities are registered solely in the name of the Foundation. Where applicable, investments are transacted with nationally reputable brokerage firms, offering protection by the Securities Investor Protection Corporation (SIPC). For the Foundation's Charitable Gift Annuity Portfolio, as required under the California Insurance Code Section 11520-11524, assets constituting the reserve investments are segregated from the other assets of the Foundation in a custodial trust account. Additionally, all of the investments in the CGA portfolio are issued, registered, or held in the name of the Foundation by its custodian bank as an agent for the Foundation. Other types of investments represent an ownership interest that does not exist in physical or book entry form. As a result, custodial risk is considered remote.

The Foundation minimizes nontrust cash balances by sweeping available balances into investment accounts on a regular basis. Cash balances from contributions are held in the Foundation's campus depository account, which is invested in The Regents' STIP fund, and managed by the Office of the Chief Investment Officer of the Regents. Remaining cash is maintained in accounts that are established as segregated trusts, protected against any creditors of the bank, and in money market mutual funds and there are no uninsured balances. Accounts may also be maintained at FDIC insured banking institutions up to the insured level. There is no custodial credit risk or foreign currency risk associated with balances maintained at the banks' trust departments and investment in the STIP. The Foundation's policy is to limit all cash accounts to be 1) held in a FDIC insured bank account with the Foundation as the legal account holder, and maintain balances under the $250,000 FDIC insurance level, 2) in a separate custodial trust account and where the Foundation's assets are not available to the creditors of the bank, 3) in an agency cash sweep account with the University, or 4) at a credit card processor. A certain portion of the balance may occasionally be exposed to custodial credit risk due to unforeseen dividends and gifts deposited at fiscal year-end, but are transferred as soon as possible.

There is no custodial credit risk for fixed-income investments at June 30, 2014 and 2013.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools, and other pooled investments are excluded from this review. Investments in the various investment pools managed by the Office of the Chief Investment Officer of the Regents are external investment pools and are not subject to concentration of credit risk. There is no concentration of any single individual issuer of equity or non-U.S. government fixed-income investments that comprise more than 5% of total investments. For its other specific investments, the Foundation minimizes concentration of credit risk by requiring no one single issuer, excluding pooled funds, represents more than 5% of the total assets of the Foundation. This, along with the diversification of the investment portfolio minimizes the impact of potential losses from any one type of security or issuer.

Interest Rate Risk

Interest rate risk is the risk that the value of fixed-income investments will decline because of rising interest rates. The prices of fixed-income investments with a longer time to maturity tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities. In accordance with its CGA reserve account investment policy, the Foundation monitors the weighted average maturity of its investment portfolio and analysis of cash flow demand. The operating practice is to ladder the maturities of the fixed-income investments with staggered maturity dates from one to ten years and use the effective duration method to identify and manage interest rate risk. The Foundation minimizes interest rate risk by investing operating funds primarily in money market mutual funds, or similar investment pools and limiting the balances maintained in those accounts in accordance with the Foundation's cash requirements.

The interest rate risk profile for fixed-income investments at June 30, 2014 and 2013 is as follows:

	Fair value		Effective duration in years	
	2014	**2013**	**2014**	**2013**
	(Dollars in thousands)			
Fixed income investments:				
U.S. government guaranteed	$ 2,116	1,996	5.56 years	5.38 years
Total U.S. government guaranteed	2,116	1,996		
Other U.S. dollar denominated:				
U.S. agencies – asset-backed securities	1,419	1,238	1.98 years	2.75 years
Supranational/foreign	686	712	3.23 years	1.98 years
Total other U.S. dollar denominated	2,105	1,950		
Commingled funds:				
U.S. bond funds	24,689	22,001	5.60 years	6.33 years
Non-U.S. bond funds	466	29	4.50 years	6.08 years
Money market funds	71,317	102,585	2.21 years	2.69 years
Total commingled funds	96,472	124,615		
Total fixed income	$ 100,693	128,561		

Foreign Currency Risk

Foreign currency risk is the possibility that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect a deposit or investment's fair value. The Foundation's endowment and planned gifts asset allocation policies include an allocation to non-U.S. equities. This exposure is obtained through investment in The Regents' GEP and private equity funds, and investment in several non-U.S. equity mutual and ETF funds that hold foreign currency denominated investments. The Regents' STIP fund, real estate vintage fund, and absolute return fund have no exposure to foreign currency risk as of June 30, 2014 and 2013. Under the Foundation's investment policy, there is no provision to purchase individual foreign-denominated securities.

At June 30, 2014 and 2013, the U.S. dollar balances of investments that carry foreign currency risk type are as follows:

		2014	2013
		(Dollars in thousands)	
Commingled funds:			
Various currency denominations:			
Balanced funds	$	92,125	74,780
Non-U.S. equity funds		45,842	31,821
Real estate		668	529
Bond funds		258	23
Total commingled funds		138,893	107,153
Private equity:			
Euro		—	212
Swedish krona		—	98
Total private equity		—	310
Total exposure to foreign currency risk	$	138,893	107,463

(4) Endowment Payout

Calculated endowment payout, for both donor-designated and funds functioning as endowment, for the years ended June 30, 2014 and 2013 and the sources of payout are as follows:

		2014	2013
		(Dollars in thousands)	
Calculated payout:			
Endowment payout allocation	$	17,457	16,625
Endowment administration cost recovery		1,723	1,523
	$	19,180	18,148
Sources of payout:			
Net cash earnings	$	4,815	4,702
Net use of accumulated gains and/or corpus		14,365	13,446
	$	19,180	18,148

(5) Commitments

As of June 30, 2014, the Foundation's investment commitments are as follows:

	Committed amount	Drawn	Remaining to be drawn
		(Dollars in thousands)	
Regents' Vintage Equity Fund (2003 year)	$ 5,000	1,247	3,753
Regents' Vintage Equity Fund (2007 year)	10,000	4,707	5,293
Regents' Real Estate Fund (2007 year)	9,000	6,567	2,433
Contrarian Distressed Real Estate Fund II	5,000	2,704	2,296
	$ 29,000	15,225	13,775

(6) Pledges Receivable

At June 30, 2014 and 2013, pledges receivable balances for expendable funds were restricted for the following UC San Diego projects:

	2014	2013
	(Dollars in thousands)	
Capital projects	$ 60,711	65,255
Research	16,450	16,936
Departmental support	5,515	3,999
Student support	512	480
Other	150	230
Total gross pledges	83,338	86,900
Less:		
Allowance for uncollectible pledges	(406)	(578)
Discount to present value	(11,006)	(12,151)
Total pledges receivable, net	$ 71,926	74,171

These gross pledges are expected to be collected in future years as follows (dollars in thousands):

Payments through June 30:	
2015	$ 23,978
2016	19,253
2017	12,217
2018	3,221
2019	2,017
Thereafter	22,652
	$ 83,338

As in previous years, an allowance for uncollectible pledges has been established based on specifically identified pledges, combined with a general allowance rate. Pledge payments extending beyond one year are discounted to recognize the present value of the future cash flows.

Pledges receivable have discount rates ranging from 1.45% to 5.00%. The discount rates will be applied for the life of the pledges. Pledges recorded during fiscal years 2014 and 2013 were discounted at 1.45% and at 2.10%, respectively. Pledges receivable from 10 donors and 9 donors accounted for approximately 91.0% and 93.6% of the gross pledges receivable balance at June 30, 2014 and 2013, respectively.

(7) Grants to Campus for Programs

The primary purpose of the Foundation is to receive donations for the support of UC San Diego. During the years ended June 30, 2014 and 2013, the Foundation made transfers to the campus in compliance with donor restrictions for the purposes noted below. There were 146 areas of the campus that were the beneficiaries of these transfers in 2014.

		2014	2013
		(Dollars in thousands)	
General departmental support	$	26,925	16,697
Research and related faculty support		21,586	14,624
Capital projects		16,015	19,934
Student aid (undergraduate and graduate)		7,789	8,982
Gift fees to support the campus		3,985	4,848
Endowment administration cost recovery to support the campus		1,723	1,629
Interest earnings granted to support the campus		1,301	1,593
	$	79,324	68,307

(8) Related-Party Transactions

During the years ended June 30, 2014 and 2013, approximately $4.8 million and $1.7 million in outright gifts and new pledges, net of discount, or approximately 7.8% and 3.7% of total gifts and new pledges, respectively, were received from trustees of the board, corporations, and organizations affiliated with trustees of the board, and senior management.

During the years ended June 30, 2014 and 2013, approximately $338,000 and $5.1 million in contributions to permanent endowments, or approximately 3.1% and 16.9% of total permanent endowments, respectively, were received from trustees of the board, corporations, and organizations affiliated with trustees of the board, and senior management.

Approximately $7.7 million and $10.4 million in pledges receivable, net of allowance and discount, or approximately 10.7% and 14.0% of total pledge receivables, as of June 30, 2014 and 2013, respectively, are from trustees of the board, corporations, and organizations affiliated with trustees of the board, and senior management.