

THE POWER OF PRIVATE GIVING

UC SAN DIEGO FOUNDATION
FINANCIAL STATEMENTS
June 30, 2013 and 2012

UC San Diego
FOUNDATION

U.C. San Diego Foundation

Index

June 30, 2013 and 2012

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Report of Independent Auditors

The Board of Trustees
U.C. San Diego Foundation

We have audited the accompanying financial statements of net position and the related statements of revenues, expenses and changes in net position and of cash flows of the University of California San Diego Foundation (the "Foundation"), a component unit of the University of California, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements.

Management's Responsibility for the Financial Statements

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation at June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matter

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

PricewaterhouseCoopers LLP

September 30, 2013

U.C. San Diego Foundation
Management’s Discussion and Analysis (Unaudited)
June 30, 2013, 2012 and 2011

The U.C. San Diego Foundation (“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, 2013, with selected comparative information for the years ended June 30, 2012 and 2011. This discussion and analysis has been prepared by management and should be read in conjunction with and is qualified in its entirety by the accompanying audited consolidated financial statements and footnotes.

Revision of Previously Issued Financial Statements

We identified an adjustment for the reclassification of prior years’ true endowment to funds functioning as endowments. We evaluated the cumulative impact of this on prior periods and concluded to revise our previously issued financial statements to reflect the impact of this correction. The following table presents the effect on both fiscal years 2012 and 2011.

(in thousands of dollars)

	<u>As Reported June 30, 2012</u>	<u>As Revised</u>	<u>As Reported June 30, 2011</u>	<u>As Revised</u>
Statement of Net Position				
Nonexpendable				
Endowments corpus	289,881	279,179	279,478	269,433
Expendable				
Endowment income and net appreciation	89,995	88,202	106,044	103,633
Funds functioning as endowments	10,406	22,901	12,732	25,188
Statements of Revenues, Expenses and Changes in Net Position				
Revenues	35,117	35,617	111,219	113,219
Operating (loss) income	(26,130)	(25,630)	58,667	60,667
(Loss) income before additions to permanent endowment	(26,651)	(26,151)	134,984	136,984
Additions to permanent endowment	10,660	10,160	12,278	10,278

There was no impact to the overall net position for either year. For additional information, see Note 2, “Summary of Significant Accounting Policies - Revision of Previously Issued Financial Statements”

Financial Highlights

During fiscal year 2013, the Foundation’s net position, which represents the excess of total assets over liabilities, increased by \$58.3 million. This is compared to a decrease in net position during fiscal year 2012 of \$16.0 million and an increase during fiscal year 2011 of \$147.3 million.

Two primary factors caused the net increase: an increase in recognized contribution revenue and significant additions to permanent endowment during fiscal year 2013, coupled with positive financial market conditions and returns. These two primary factors are described below.

During 2013, overall contributions to the Foundation increased by \$12.4 million over that of fiscal year 2012. In fiscal 2013 there were several significant bequests received to endowment as well as

U.C. San Diego Foundation

Management's Discussion and Analysis (Unaudited)

June 30, 2013, 2012 and 2011

expendable funds. A decline the total recognized revenue occurred in fiscal 2012 versus 2011 because fiscal year 2011 contributions results were unusual with the recognition of a large pledge of \$70 million (gross) designated for a specific campus construction project.

The financial markets over the past three fiscal years have fluctuated significantly. Positive returns occurred in fiscal year 2013 in the Foundation's endowment portfolio, compared to a slightly negative result experienced in fiscal year 2012, and a very large positive result in fiscal year 2011. The Foundation's endowment pool for the year ended June 30, 2013 had a net total return of 12.0%, compared to -.70% for fiscal year 2012 and 21.6% for fiscal year 2011. Accordingly, the non-operating income in fiscal year 2013 was \$48.2 million as compared to non-operating loss of \$521,000 in 2012 and non-operating income of \$76.3 million in 2011.

The Foundation expects fluctuations in contribution revenues, additions to permanent endowment 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 include all assets and liabilities. The Statements of Revenues, Expenses and Changes in Net Position report the revenues earned and the expenses incurred during the year as either operating or non-operating. Incoming gifts and grants made to the campus are reported as operating revenue and expense respectively, and investment results are reported as non-operating income or expense.

Condensed Statements of Net Position

<i>(in thousands of dollars)</i>	June 30					
	2013		2012		2011	
Assets						
Current assets	\$ 123,610	19%	\$ 105,235	17%	\$ 109,746	18%
Noncurrent assets	538,434	81%	498,325	83%	511,168	82%
Total assets	<u>662,044</u>	<u>100%</u>	<u>603,560</u>	<u>100%</u>	<u>620,914</u>	<u>100%</u>
Liabilities						
Current liabilities	3,100	18%	3,156	18%	3,692	20%
Noncurrent liabilities	14,329	82%	14,119	82%	14,946	80%
Total liabilities	<u>17,429</u>	<u>100%</u>	<u>17,275</u>	<u>100%</u>	<u>18,638</u>	<u>100%</u>
Total net position	<u>\$ 644,615</u>		<u>\$ 586,285</u>		<u>\$ 602,276</u>	

U.C. San Diego Foundation
Management's Discussion and Analysis (Unaudited)
June 30, 2013, 2012 and 2011

The Condensed Statements of Net Position show the assets, liabilities, and net position for fiscal years 2013, 2012, and 2011. As of June 30, 2013, the Foundation's total assets increased by \$58.4 million or 9.7%, to \$662.0 million from \$603.6 million at June 30, 2012, versus \$620.9 million at June 30, 2011.

Current assets increased by \$18.4 million during fiscal year 2013 and represented 19% of total assets, versus 17% in 2012 and 18% in 2011. Current assets consist of cash, short-term investments notes receivable due within one year and the portion of pledges receivable due within one year.

Noncurrent assets consist of long-term investments as well as the portion of pledges receivable due beyond one year. Noncurrent assets increased by \$40.1 million during fiscal year 2013 and represented 81% of total assets, versus 83% in 2012 and 82% in 2011.

As of June 30, 2013, the Foundation's total liabilities increased by approximately 0.9% or \$154,000 from June 30, 2012. Liabilities to annuitants and life beneficiaries represent the most significant component of the Foundation's total liabilities. Current liabilities are comprised of 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. Noncurrent liabilities are comprised of the long term portion of the calculated estimated liability due to life income beneficiaries and gift fees payable beyond one year.

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

<i>(in thousands of dollars)</i>	Year Ended June 30		
	2013	2012	2011
Operating revenues	\$ 47,976	\$ 35,617	\$ 113,219
Operating expenses	<u>(68,367)</u>	<u>(61,247)</u>	<u>(52,552)</u>
Operating (loss) income	(20,391)	(25,630)	60,667
Nonoperating (expense) income (expense)	<u>48,250</u>	<u>(521)</u>	<u>76,316</u>
Income (loss) income before additions to permanent endowments	27,859	(26,151)	136,983
Additions to permanent endowments	<u>30,471</u>	<u>10,160</u>	<u>10,278</u>
Change in net position	58,330	(15,991)	147,261
Net position			
Beginning of the year	<u>586,285</u>	<u>602,276</u>	<u>455,015</u>
End of the year	<u>\$ 644,615</u>	<u>\$ 586,285</u>	<u>\$ 602,276</u>

The Condensed Statements of Revenues, Expenses and Changes in Net Position reflect operating and non-operating revenue and expense, and additions to permanent endowments, for fiscal years 2013, 2012 and 2011.

Operating revenue for the Foundation consists of charitable contributions (excluding endowed gifts) and totaled \$48.0 million for fiscal year 2013. This was an increase over fiscal year 2012 of \$12.4 million, but a decrease from fiscal year 2011 of \$65.2 million. The change was discussed under Financial Highlights.

Operating expense consists primarily of grants made to UC San Diego of expendable contributions and accumulated endowed payout, based on the campus beneficiary's request for the funds. The timing of grants to the campus typically lags the timing of the incoming contribution revenue and endowed payout. Similar to fiscal year 2012, in fiscal year 2013 grants made to the campus exceeded recognized

U.C. San Diego Foundation Management's Discussion and Analysis (Unaudited) June 30, 2013, 2012 and 2011

contribution revenue, resulting in an operating loss. In fiscal year 2011, due to the large contribution previously described, contributions exceeded grants to the campus, creating operating income.

Non-operating income or loss relates primarily to the Foundation's investing activities and change in the calculated liability payable to life beneficiaries. As described in the Financial Highlights section, wide swings in financial markets during fiscal years 2013, 2012 and 2011 created significant shifts by fiscal year in non-operating income versus loss. The non-operating income in fiscal years 2013 and 2011 was directly the result of positive financial markets and endowment returns, unlike the volatility in the global economy during fiscal year 2012 that resulted in overall flat financial results.

Increasing the gifts to and enhancing the value of the endowment are of significant importance to the Foundation. The size of the endowment correlates directly with being able to provide permanent resources for the benefit of UC San Diego. Endowed gifts received in fiscal year 2013 were \$30.5 million, compared to \$10.2 million and \$10.3 million in fiscal years 2012 and 2011 respectively. The increase of \$20.3 million in fiscal year 2013 was due to the receipt of one very large gift and many smaller gifts.

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.

Given the significant declines in support from the State of California over the last decade to the University of California, private support is an increasingly important resource to UC San Diego. The Foundation anticipates a higher rate of use of Foundation held funds in the future, in the form of grants to the campus, as a result of decreased resources provided by the State.

Management is not aware of any 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, 2013 and 2012

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 999,874	\$ 3,094,050
Short-term investments	103,286,336	78,306,265
Pledges receivable, net of allowance for uncollectible receivables of \$199,466 and \$410,856 in 2013 and 2012, respectively	18,817,070	23,531,251
Notes receivable	470,238	-
Other assets	36,972	303,546
Total current assets	<u>123,610,490</u>	<u>105,235,112</u>
Noncurrent assets		
Investments	474,745,803	423,658,105
Pledges receivable, net of allowance for uncollectible receivables of \$567,934 and \$488,502, and discount of \$23,100,466 and \$25,084,535 in 2013 and 2012, respectively	63,124,968	73,381,729
Notes receivable, net of discount of \$32,295 in 2012	-	437,943
Other assets	563,110	847,594
Total noncurrent assets	<u>538,433,881</u>	<u>498,325,371</u>
Total assets	<u>662,044,371</u>	<u>603,560,483</u>
Liabilities and Net Position		
Current liabilities		
Accounts payable	920,361	779,799
Agency funds	46,570	126,004
Liabilities to life beneficiaries	2,134,177	2,250,527
Total current liabilities	<u>3,101,108</u>	<u>3,156,330</u>
Noncurrent liabilities		
Liabilities to life beneficiaries	13,766,385	14,118,605
Other noncurrent liabilities	561,669	-
Total noncurrent liabilities	<u>14,328,054</u>	<u>14,118,605</u>
Total liabilities	<u>17,429,162</u>	<u>17,274,935</u>
Total net position	<u>\$ 644,615,209</u>	<u>\$ 586,285,548</u>
Net position		
Restricted		
Nonexpendable		
Endowments corpus	\$ 312,617,212	\$ 279,179,293
Trusts and other life income funds	5,060,907	5,354,244
Expendable		
Endowment income and net appreciation	111,664,294	88,202,443
Annuity and life income funds	6,763,066	7,198,796
Funds functioning as endowments	35,752,940	22,900,791
Restricted gift funds	169,384,867	178,468,491
Unrestricted	3,371,923	4,981,490
Total net position	<u>\$ 644,615,209</u>	<u>\$ 586,285,548</u>

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

U.C. San Diego Foundation
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues		
Contributions, net of allowance expense of \$195,166 and \$395,064 in 2013 and 2012, respectively	\$ 47,975,769	\$ 35,617,218
Total operating revenues	<u>47,975,769</u>	<u>35,617,218</u>
Operating expenses		
Grants to campus for programs	(68,306,641)	(61,160,883)
Administrative and other operating expenses	<u>(60,400)</u>	<u>(86,185)</u>
Total operating expenses	<u>(68,367,041)</u>	<u>(61,247,068)</u>
Operating (loss)	<u>(20,391,272)</u>	<u>(25,629,850)</u>
Nonoperating income (expense)		
Investment income, net	6,638,989	7,577,060
Change in fair value of investments	42,338,876	(8,193,401)
Change in calculated value of liabilities to life beneficiaries	(729,067)	94,756
Other nonoperating income	<u>811</u>	<u>845</u>
Total nonoperating income (loss)	<u>48,249,609</u>	<u>(520,740)</u>
Income (loss) before additions to permanent endowments	27,858,337	(26,150,590)
Additions to permanent endowments	<u>30,471,326</u>	<u>10,160,070</u>
Increase (Decrease) in net position	58,329,663	(15,990,520)
Net position		
Beginning of the year	<u>586,285,548</u>	<u>602,276,068</u>
End of the year	<u>\$ 644,615,211</u>	<u>\$ 586,285,548</u>

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

U.C. San Diego Foundation
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Receipts from contributions	\$ 53,351,600	\$ 42,637,304
Payments to campus	(60,050,447)	(54,987,980)
Other payments, net	<u>(8,970,202)</u>	<u>(7,154,030)</u>
Net cash used in operating activities	<u>(15,669,049)</u>	<u>(19,504,706)</u>
Cash flows from noncapital financing activities		
Private gifts for permanent endowments	<u>11,924,567</u>	<u>9,504,810</u>
Net cash provided by noncapital financing activities	<u>11,924,567</u>	<u>9,504,810</u>
Cash flows from investing activities		
Proceeds from sale and maturities of investments	79,313,988	84,032,052
Purchases of investments	(84,270,362)	(79,755,923)
Investment income, net of investment expense	<u>6,606,680</u>	<u>7,331,529</u>
Net cash provided by investing activities	<u>1,650,306</u>	<u>11,607,658</u>
Net (decrease) increase in cash and cash equivalents	(2,094,176)	1,607,762
Cash and cash equivalents		
Beginning of the year	<u>3,094,050</u>	<u>1,486,288</u>
End of the year	<u>\$ 999,874</u>	<u>\$ 3,094,050</u>
Reconciliation of operating (loss) income to net cash used in operating activities		
Operating (loss)	\$ (20,391,272)	\$ (25,629,850)
Adjustments to reconcile operating (loss) to net cash used in operating activities		
Noncash gifts	(9,562,817)	(1,484,717)
Allowance on pledges	(131,959)	65,530
Changes in operating assets and liabilities		
Pledges receivable, net	15,102,901	8,877,215
Notes receivable, net	(32,295)	(437,943)
Accounts payable	544,681	(242,753)
Liabilities to life beneficiaries	<u>(1,198,288)</u>	<u>(652,188)</u>
Net cash used in operating activities	<u>\$ (15,669,049)</u>	<u>\$ (19,504,706)</u>
Supplemental noncash activities		
Contributions of securities	\$ 9,357,726	\$ 1,340,788
Residual income from matured life income gifts	24,231	86,874
Other noncash contributions	<u>180,860</u>	<u>57,055</u>
Total noncash gifts	<u>\$ 9,562,817</u>	<u>\$ 1,484,717</u>
Gifts of securities for permanent endowments	\$ 17,232,632	\$ 939,199
Residual income from matured life income gifts	<u>1,562,710</u>	<u>-</u>
Total noncash gifts for permanent endowments	<u>\$ 18,795,342</u>	<u>\$ 939,199</u>

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

U.C. San Diego Foundation

Notes to Financial Statements

June 30, 2013 and 2012

1. Organization

The U.C. San Diego Foundation (the "Foundation") was formed in 1972 as a California nonprofit corporation and is governed by a forty-two member Board of Trustees. 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.

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.

UC San Diego provides the facilities, and personnel and operating budget for the Foundation.

2. Summary of Significant Accounting Policies

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

Basis of Accounting

The financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America 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 inter-fund activities have been eliminated from the Foundation's financial statements.

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 statement 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 statement of net position. All other assets and liabilities are considered to be noncurrent.

U.C. San Diego Foundation
Notes to Financial Statements
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

Revision of Previously Issued Financial Statements:

The Foundation identified an out of period adjustment for the reclassification of endowment corpus and income to funds functioning as endowments, which should have been recognized in prior years. The Foundation evaluated the cumulative impact of this item on prior periods under the guidance in ASC 250-10 related to SEC Accounting Bulletin (“SAB”) No. 99, “Materiality.” The Foundation also evaluated the impact of correcting this item through an adjustment to its financial statements as of June 30, 2013 and concluded, based on the guidance within ASC 250-10 relating to SAB No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,” to revise its previously issued financial statements to reflect the impact of this correction. Through this revision, the Foundation will increase funds functioning as endowments and reduce endowment corpus and endowment income and appreciation, which results in zero impact to the net position.

The table below presents the impact of this revision on the Foundation’s Statements of Net Position and Statements of Revenue, Expenses and Net Position.

(in thousands of dollars)

	<u>As Reported</u>	<u>As Revised</u>
	<u>June 30, 2012</u>	
Statement of Net Position		
Nonexpendable		
Endowments corpus	289,881	279,179
Expendable		
Endowment income and net appreciation	89,995	88,202
Funds functioning as endowments	10,406	22,901
 Statements of Revenues, Expenses and Changes in Net Position		
Revenues	35,117	35,617
Operating (loss) income	(26,130)	(25,630)
(Loss) income before additions to permanent endowment	(26,651)	(26,151)
Additions to permanent endowment	10,660	10,160
 Statements of Cash Flows		
Cash flows from operating activities		
Receipts from contributions	42,137	42,637
 Cash flows from noncapital financing activities		
Private gifts for permanent endowments	10,005	9,505

2. Summary of Significant Accounting Policies (Continued)

Investments

Investments are carried 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 over-the-counter 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. Alternative investments, which include private equity, absolute return, and real estate, are valued 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.

Pledges Receivable

Pledges receivable are written unconditional promises to make future gifts. Pledges meeting the time requirements specified by GASB Statement No. 33 are included in the financial statements as pledges receivable and recognized as revenue. Pledge payments scheduled for collection within the next fiscal year are recorded as current assets. 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 addition, an allowance for uncollectible pledges is recorded based on management's assessment of the collectability 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 eligibility requirements are substantially met. Endowment pledges are recognized as additions to permanent endowments only at the time payments are received as specified by GASB Statement No. 33.

Donated Property

Donations of securities, real estate and other nonmonetary items are recorded at their fair market value at the date of gift.

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 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 Charitable Remainder Trust ("trust") or Charitable Gift Annuity ("CGA") contract is terminated, and the remaining assets are transferred to the appropriate Foundation fund.

Net Position

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

2. Summary of Significant Accounting Policies (Continued)

Restricted Nonexpendable net position (endowment or permanently restricted) is subject to externally imposed conditions that the Foundation will retain them in perpetuity. Net position in this category is comprised of the corpus of true-donor-designated endowed funds and balances from life income funds that will ultimately be designated as permanent endowed funds upon maturity. Also included are additions to corpus as designated, or required, by donors 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 statement of net position.

Restricted Expendable net position relates to contributions designated by donors for use by particular programs or for specific purposes or functions of the University. These net positions include net accumulated appreciation on endowed funds, net accumulated endowment spending allocations, balances from life income funds that will be designated as restricted expendable, funds functioning as endowments, and restricted expendable funds.

Unrestricted net position is not subject to donor-imposed restrictions.

Revenue and Expenses

Contributions are recognized as operating revenues in the period pledged, or if an outright gift when received. Contributions to the Foundation are recorded at fair value when the eligibility requirements established by the donor have been satisfied. Eligibility requirements for recognition of pledges receivable are satisfied when the Foundation can comply with both the purpose and time requirements imposed by donors. It is at this time that the associated contribution revenue, net of any applicable discount, is recognized. For endowed pledges, the purpose requirement (invest the principal) and the time requirement (hold intact in perpetuity) cannot be met until the gift is actually received. Therefore, pledges related to endowed funds are not recorded or recognized as assets or gift income until payments are actually received.

Operating expenses consist primarily of transfers to the UC San Diego campus of expendable gift and endowed payout funds to be expended for the purpose given.

Non-operating 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 Additions to Permanent Endowments.

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.

U.C. San Diego Foundation
Notes to Financial Statements
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

Endowments and Endowment Payout Policy (Continued)

The Foundation Board adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), effective January 1, 2009, which provides statutory guidance for management, investment and expenditures of 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 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 year 2013 was 4.75% with 0.40% of that used to recover endowment administration costs.

Charitable Remainder Trusts and Charitable Gift Annuities

As of June 30, 2013, the Foundation was the trustee and sole beneficiary of 12 irrevocable charitable remainder trusts entered into with 12 separate donors. Three charitable trusts terminated during the year: the term for a charitable lead annuity trust ended; one charitable remainder unitrust matured, and the beneficiaries of another charitable remainder unitrust chose to terminate their trust early. 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. Beneficiaries receive payments as specified in the trust agreements.

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. As of June 30, 2013 and 2012, the Foundation had 115 contracts outstanding with 54 separate donors and 119 contracts outstanding with 55 separate donors, respectively. 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 recorded in the financial statements using life expectancy tables and certain other estimates in computing a present value of the liability. 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 CGA contract is terminated, and the remaining assets are transferred to the appropriate Foundation fund and made available for the UC San Diego programs designated by the donor(s).

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 \$46,600 and \$126,000 at June 30, 2013 and 2012, respectively.

U.C. San Diego Foundation
Notes to Financial Statements
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

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.

Use of Estimates

The preparation of financial statements in accordance 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, disclose contingent assets and liabilities at the date of the financial statements, and report amounts of support, revenue, disbursements and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash, Cash Equivalents, and Investments

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

U.C. San Diego Foundation
Notes to Financial Statements
June 30, 2013 and 2012

Cash, cash equivalents, and investments consist of the following as of June 30, 2013 and 2012:

<i>(in thousands of dollars)</i>	2013	2012
Cash and cash equivalents		
Commercial banks and money market funds	\$ 781	\$ 2,359
University of California short-term investment pool	219	735
Total cash and cash equivalents	1,000	3,094
Investments		
Equity securities—domestic	742	269
Fixed income securities		
U.S. Treasury notes	1,835	2,006
U.S. Treasury strips	161	183
U.S. agencies—asset-backed securities	1,238	1,197
Supranational/foreign	712	743
Commingled funds		
Balanced funds	327,345	294,210
Commodities	1,124	1,033
Absolute return	30,541	30,107
Private equity	10,763	10,787
U.S. equity funds	31,391	26,528
Non-U.S. equity funds	32,824	24,604
Real estate	13,464	11,511
U.S. bond funds	22,030	19,690
Money market funds	102,585	78,026
Other		
Real estate	1,090	940
Other	187	130
Total investments	578,032	501,964
Total cash, cash equivalents, and investments	\$ 579,032	\$ 505,058
As classified on the statement of net position		
Current—cash and cash equivalents	\$ 1,000	\$ 3,094
Current—short term investments	104,028	78,306
Noncurrent—investments	474,004	423,658
Total cash, cash equivalents, and investments	\$ 579,032	\$ 505,058

The Foundation deposits and maintains cash in UC San Diego's agency fund, as well as various commercial banks and brokerage accounts to meet operating needs. Excess funds are transferred as often as necessary to their primary investment accounts.

U.C. San Diego Foundation
Notes to Financial Statements
June 30, 2013 and 2012

3. Cash, Cash Equivalents, and Investments (Continued)

The Foundation holds significant equity, fixed income and alternative investments. The largest portion of these investments relates to the Foundation's endowment. While the Foundation has several investments in external funds, the majority of the investments are held in several University of California managed commingled funds ("U.C. pooled funds"), offered to the campus foundations by the U.C. Treasurer's office. Specifically, the Foundation utilizes:

- The General Endowment Pool ("GEP"), which is a balanced portfolio containing equity, fixed-income securities and alternative investments. This fund is used as a core investment vehicle for the Foundation's endowed contributions;
- The U.C. Absolute Return Pool, two Private Equity Vintage Year Portfolios, and a Vintage Year Real Estate Portfolio;
- The Short-Term Investment Pool ("STIP"), which is a money market portfolio, serves as the Foundation's core investment vehicle for expendable contributions and is used from time to time as a fixed income asset in the Endowment Pool as well..

Investment Performance

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

<i>(in thousands of dollars)</i>	2013	2012
Change in unrealized appreciation (depreciation) on investments	\$ 40,731	\$ (8,269)
Realized gain on investments, net	<u>1,608</u>	<u>76</u>
Change in fair value of investments	<u>\$ 42,339</u>	<u>\$ (8,193)</u>

The Foundation's net income yield on the current use investment pool for the year ended June 30, 2013 was 2.09%, as compared to 2.37% as of June 30, 2012. The net total return on the Foundation's endowment pool for the year ended June 30, 2013 was 12.0%, as compared to -.70% for June 30, 2012.

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 securities. Equity securities respond to such 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. 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 securities 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 securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have little or no credit risk. The Foundation maintains policies to manage credit risk which include requiring minimum credit ratings issued by nationally recognized rating organizations.

U.C. San Diego Foundation
Notes to Financial Statements
June 30, 2013 and 2012

3. Cash, Cash Equivalents, and Investments (Continued)

Credit Risk (Continued)

The Foundation's investment in the University's STIP is considered to be an investment in an external investment pool and is "unrated".

The Foundation's Charitable Gift Annuity investment policy requires that a minimum of 50% of the required reserve be invested in U.S. Treasury and U.S. government agency fixed income securities of any maturity.

The credit risk profile for fixed income securities at June 30, 2013 and 2012 is as follows:

<i>(in thousands of dollars)</i>	2013	2012
Fixed-income securities		
U.S. government guaranteed	\$ 1,996	\$ 2,189
U.S. agencies	1,238	1,197
Supranational/foreign	712	743
	<u>3,946</u>	<u>4,129</u>
Commingled funds		
U.S. bond funds	22,030	19,690
Money market funds	102,585	78,026
	<u>124,615</u>	<u>97,716</u>
Total fixed-income securities	<u>\$ 128,561</u>	<u>\$ 101,845</u>

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 Board has chosen to use the various pooled investment vehicles managed by the U.C. Regents' Treasurer 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 securities 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. All investments are transacted with nationally reputable brokerage firms, offering protection by the Securities Investor Protection Corporation. 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. Investments in money market funds represent an ownership interest that does not exist in physical form.

3. Cash, Cash Equivalents, and Investments (Continued)

Custodial Credit Risk – Deposits and Investments (Continued)

The Foundation minimizes non-trust 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, managed by the Treasurer 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. Although they are not insured and are uncollateralized, these accounts are held in the name of the Foundation. 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 maintains 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 securities at June 30, 2013 and 2012.

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 Treasurer 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 securities that comprise more than five percent 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 five percent 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 securities will decline because of rising interest rates. The prices of fixed-income securities 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 securities with staggered maturity dates from one to ten years and use the weighted average maturity 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.

U.C. San Diego Foundation
Notes to Financial Statements
June 30, 2013 and 2012

4. Cash, Cash Equivalents, and Investments (Continued)

Interest Rate Risk (Continued)

The interest rate risk profile for fixed income securities at June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

	Fair value		Weighted Average Maturity in Years	
	2013	2012	2013	2012
Fixed income securities				
U.S. government guaranteed	\$ 1,996	\$ 2,189	5.51 years	6.36 years
Total U.S. government guaranteed	1,996	2,189		
Other U.S. dollar denominated				
U.S. agencies—asset-backed securities	1,238	1,197	2.88 years	3.52 years
Supranational/foreign	712	743	2.24 years	3.24 years
Total other U.S. dollar denominated	1,950	1,940		
Commingled funds				
U.S. bond funds Not rated	22,030	19,690		
Money market funds Not rated	102,585	78,026		
Total commingled funds	124,615	97,716		
Total fixed income	\$ 128,561	\$ 101,845		

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 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, 2013 and 2012. Under the Foundation's investment policy, there is no provision to purchase individual foreign-denominated securities.

U.C. San Diego Foundation
Notes to Financial Statements
June 30, 2013 and 2012

3. Cash, Cash Equivalents, and Investments (Continued)

Foreign Currency Risk (continued)

At June 30, 2013 and 2012, the U.S. dollar balance of investments that carry foreign currency risk type are as follows:

(000's)

(in thousands of dollars)

Commingled funds:

Various currency denominations:

	2013	2012
Balanced funds	\$ 74,780	\$ 67,632
Non-U.S. equity funds	31,821	23,704
Real Estate	529	540
Bond Funds	23	-
Total commingled funds	<u>107,153</u>	<u>91,876</u>

Private equity:

Euro	212	193
Swedish krona	98	78
Total private equity	<u>310</u>	<u>271</u>
Total exposure to foreign currency risk	<u>\$ 107,463</u>	<u>\$ 92,147</u>

4. Endowment Payout

Calculated endowment payout, for both donor-designated and funds functioning as endowment, for the years ended June 30, 2013 and 2012 and the sources of payout are as follows:

(in thousands of dollars)

Calculated payout

	2013	2012
Endowment payout allocation	\$ 16,625	\$ 15,531
Endowment cost recovery	1,523	1,424
	<u>\$ 18,148</u>	<u>\$ 16,955</u>

Sources of payout

Net cash earnings	\$ 4,702	\$ 5,312
Net use of accumulated gains and corpus	13,446	11,643
	<u>\$ 18,148</u>	<u>\$ 16,955</u>

U.C. San Diego Foundation
Notes to Financial Statements
June 30, 2013 and 2012

5. Commitments

As of June 30, 2013, the U.C. San Diego Foundation's investment commitments are as follows:

<i>(in thousands of dollars)</i>	Committed Amount	Drawn	Remaining to be Drawn
Regents' Vintage Equity Fund (2003 year)	\$ 5,000	\$ 2,895	\$ 2,105
Regents' Vintage Equity Fund (2007 year)	10,000	6,790	3,210
Regents' Real Estate Fund (2007 year)	9,000	7,214	1,786
Contrarian Distressed Real Estate Fund II	5,000	2,816	2,184
	<u>\$ 29,000</u>	<u>\$ 19,715</u>	<u>\$ 9,285</u>

6. Pledges Receivable

At June 30, 2013 and 2012, pledges receivable balances for expendable funds were restricted for the following UC San Diego projects:

<i>(in thousands of dollars)</i>	2013	2012
Departmental support	\$ 22,908	\$ 21,784
Construction	65,255	82,475
Research	16,936	17,912
Student support	480	526
Other	230	200
Total gross pledges	<u>105,809</u>	<u>122,897</u>
Less: Allowance for uncollectible pledges	(767)	(900)
Less: Discount to present value	<u>(23,100)</u>	<u>(25,085)</u>
Total pledges receivable (net of allowances and discounts)	<u>\$ 81,942</u>	<u>\$ 96,912</u>

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

(in thousands of dollars)

Payments through June 30,

2014	19,016
2015	15,363
2016	17,727
2017	10,893
2018	1,981
Thereafter	40,829
	<u>\$ 105,809</u>

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.

U.C. San Diego Foundation
Notes to Financial Statements
June 30, 2013 and 2012

6. Pledges Receivable (continued)

Pledges recorded during fiscal years 2013 and 2012 were discounted at 2.1% and at 2.4% respectively. The discount rates will be applied for the life of the pledges. Pledges receivable from 11 donors and 14 donors accounted for approximately 94.7% and 97.1% of the gross pledges receivable balance at June 30, 2013 and 2012, respectively.

7. Grants to Campus for Programs

The primary purpose of the Foundation is to receive donations for the support of U.C. San Diego. During the years ended June 30, 2013 and 2012, the Foundation made transfers to the campus in compliance with donor restrictions for the purposes noted below. There were 152 areas of the campus that were the beneficiaries of these transfers in 2013.

<i>(in thousands of dollars)</i>	2013	2012
General departmental support	\$ 16,697	\$ 18,612
Research and related faculty support	14,624	15,964
Capital project construction	19,934	14,018
Student aid (undergraduate and graduate)	8,982	6,536
Interest earnings granted to campus	1,593	1,842
Endowment cost recovery remitted to campus	1,629	1,522
Gift fees remitted to campus	4,848	2,668
	<u>\$ 68,307</u>	<u>\$ 61,162</u>

8. Related Party Transactions

During the years ended June 30, 2013 and 2012, approximately \$1.7 million and \$4.3 million in outright gifts and new pledges, net of discount, or approximately 3.6% and 12.2%, 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, 2013 and 2012, approximately \$5.1 million and \$804,000 in additions to permanent endowments, or approximately 16.9% and 7.9%, respectively, were received from trustees of the Board, corporations and organizations affiliated with trustees of the Board, and senior management.

Approximately \$17.6 million and \$57.2 million in pledges receivable, net of allowance and discount, or approximately 21.5% and 59.0%, as of June 30, 2013 and 2012, respectively are from trustees of the Board, corporations and organizations affiliated with trustees of the Board, and senior management.