



INVESTING IN THE FUTURE

UC SAN DIEGO FOUNDATION FINANCIAL STATEMENTS
June 30, 2008 and 2007 (With Independent Auditors' Report Thereon)



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MESSAGE FROM THE CHAIR AND PRESIDENT

Public and private support for an extraordinary institution like UC San Diego will always be a profitable investment for the people of San Diego County and California.



Pauline Foster



Debra Neuman

DEAR FRIENDS,

This is our first year at the helm of the UC San Diego Foundation in the capacity of President and Chair of the Board of Trustees. Together as Foundation leadership, we look forward to leveraging our experience in the corporate and nonprofit sectors to identify new ways that our Trustees can add value and impact to the university.

We are pleased to report that donors and friends of the university understand the mission of UC San Diego and continue to play a vital role in expanding the local impact, national influence, and global reach of this great institution. In fiscal year 2007–08, the university received private support totaling \$121.8 million to help us forge common connections, research new possibilities, support change initiatives, and provide public benefit.

The UC San Diego Foundation is committed to being a good steward of the funds entrusted to us. Gifts from private donors are precious, whether they support a new music center, provide much-needed undergraduate scholarships and graduate fellowships, support stellar scientists in their research, or a myriad of other programs and initiatives. One small way we are helping the campus adjust during this tight budgetary time is combining the UC San Diego Annual Financial Report with the Foundation Annual Report to be more efficient and environmentally friendly.

With a deepening global economic crisis, these are trying times for everyone and a challenging environment in which to raise funds. But with only 12 percent of the university's annual budget funded by the state of California and the possibility of further erosion, the need for private support is even more compelling.

Unlike many financial ventures these days, public and private support for an extraordinary institution like UC San Diego will always be a profitable investment for the people of San Diego County and California. According to an independent economic impact analysis by CBRE Consulting, Inc., UC San Diego contributes 39,000 jobs and \$7.2 billion in direct and indirect spending and personal income each year to California, and 33,600 jobs and \$5.7 billion in spending and personal income in San Diego County alone.

Companies started by UC San Diego faculty and alumni create an equally powerful impact. In San Diego County, these start-ups

contribute nearly 115,000 jobs and approximately \$32 billion in direct and indirect spending and personal income to the economy. QUALCOMM, founded by former UC San Diego professor Irwin Jacobs, is a key example of the entrepreneurial spirit that abounds here. But there's also Viasat, Cymer, Senomyx, and dozens of other local companies that sprang from the UCSD campus—companies that define San Diego's economy today.

UC San Diego creates scientific, technological, and artistic breakthroughs that stimulate the economy, provide an educated workforce, and improve lives. The campus is committed to serving our local community through programs such as the UCSD Student-Run Free Clinic Project, where our medical students provide free health care to individuals and families in San Diego without access to health care. The San Diego Consortium for Regenerative Medicine—a collaborative effort that includes UC San Diego, the Burnham Institute for Medical Research, the Salk Institute for Biological Studies, and The Scripps Research Institute—will build a center dedicated to stem cell research on land owned by the university. Global CONNECT, a membership network established under UCSD Extended Studies and Public Programs, links individuals and organizations committed to growing new technology clusters worldwide.

For a public university, the true measure of greatness is the positive economic, social, and cultural impact the campus has on the world. We look forward to working together with you, our valued friends, to maintain the positive impact that your support has had and will continue to have on UC San Diego... and beyond.

With Warm Regards,



Pauline Foster
CHAIR, UC SAN DIEGO
FOUNDATION BOARD
OF TRUSTEES
President, Foster Investment Group



Debra Neuman
PRESIDENT, UC SAN DIEGO
FOUNDATION BOARD
OF TRUSTEES
Vice Chancellor, External Relations

UC SAN DIEGO FOUNDATION FINANCIAL STATEMENTS

June 30, 2008 and 2007

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The Board of Trustees
UC San Diego Foundation

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses, and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the UC San Diego Foundation (the "Foundation") at June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Foundation adopted GASB 52, "Land and Other Real Estate Held as Investments by Endowments", for the year ended June 30, 2008.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 23, 2008

PricewaterhouseCoopers LLP

The UC San Diego Foundation was established in 1972 to encourage financial support through charitable gifts for the benefit of the University of California, San Diego campus. The Foundation provides a convenient means for charitable giving to the campus, and is governed by a local Board of Trustees comprised of the campus' closest alumni, friends, and community members. Gifts are also raised for the campus through The Regents of the University of California and are not included in these statements.

The management of the UC San Diego Foundation presents the following Management's Discussion and Analysis (MD&A) narrative overview and analysis of the financial activities of the Foundation for the fiscal year ended June 30, 2008, with selected comparative information for the years ended June 30, 2007 and 2006. 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.

FINANCIAL HIGHLIGHTS

Overview

Fiscal year 2008 was the first year following the completion of the campus' comprehensive "Imagine What's Next" \$1 Billion Campaign. The campus benefited from the increase in assets given to the Foundation during the seven years of the campaign. During 2008, the Foundation continued to receive strong donor support in the form of expendable charitable giving, which was comparable to fiscal year 2007. Endowed giving decreased by \$20.5 million or 58% from the prior year. The Foundation supported campus needs during 2008 in the form of increased grants to the campus of \$9.9 million or 19.3%

over those made in 2007. Net assets, representing the excess of total assets over total liabilities, decreased by 2% or \$11.8 million to \$496.8 million for the year ended June 30, 2008, while the change in net assets for the prior year ended June 30, 2007, reflected an increase of 21% or \$88 million. The difference in the financial results between fiscal year 2008 and 2007 primarily result from the vastly different financial market conditions and returns year-to-year.

Presentation and Using This Report

The Foundation presents its financial report in accordance with Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments (GASB 34), which focuses the reader of the financial reports on the organization's overall financial condition, and changes in net assets and cash flow, taken as a whole. These statements present financial information in a form similar to that used by private sector companies and are prepared on the accrual basis of accounting.

The Statements of Net Assets include all assets and liabilities. Net assets serve as a useful indicator of an organization's financial health over time, when considered in combination with other nonfinancial information of the entity. The Statements of Revenue, Expenses, and Changes in Net Assets provide the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating; in the case of the Foundation, gifts are reported as operating revenue and investment results reported as nonoperating revenue. The Statements of Cash Flows provide relevant information about the sources and uses of cash of an entity during a given period.

CONDENSED STATEMENT OF NET ASSETS *(in thousands)*

	2008		June 30 2007		2006	
ASSETS						
Current assets	\$ 82,551	16%	\$ 97,571	18%	\$ 89,276	20%
Noncurrent assets	438,205	84%	437,105	82%	355,122	80%
Total Assets	520,756	100%	534,676	100%	444,398	100%
LIABILITIES						
Current liabilities	4,249	18%	4,351	17%	4,656	20%
Noncurrent liabilities	19,719	82%	21,708	83%	19,125	80%
Total Liabilities	23,968	100%	26,059	100%	23,781	100%
Total Net Assets	\$ 496,788		\$ 508,617		\$ 420,617	

In fiscal year 2008, the Foundation's total assets decreased by \$13.9 million or 2.6%, compared to an increase in fiscal year 2007 of \$90.4 million or 20.3%.

Current assets decreased by \$15 million during fiscal year 2008, and comprised 16% of total assets versus 18% in 2007 and 20% in 2006. Current assets consist primarily of cash, short-term investments, and pledges receivable within one year. The decrease for fiscal year 2008 over 2007 was primarily due to the use of short-term investment balances to cover the increase in the grants made to the campus during fiscal year 2008 versus 2007. Fiscal year 2007 reflected an increase in current assets due to incoming expendable gifts and accumulating available balances in endowment spending.

Noncurrent assets increased by only \$1 million during fiscal year 2008 and comprised 84% of total assets, versus 82% in 2007 and 80% in 2006. Non-current assets consist primarily of long-term investments of endowment principal, as well as life income funds, and the long-term portion of pledges receivable. A significant mission of the Foundation is to increase the endowment value for the benefit of UCSD. While endowed gifts during fiscal year 2008 were \$14.7 million, the financial market volatility and ultimate negative returns resulted in a reduction of the fair value of the investments of \$16.2 million. This contrasts with \$35.1 million of new endowed gifts received during fiscal year 2007 and \$50.0 million in appreciation in the investments.

In fiscal year 2008, total liabilities decreased by \$2.1 million or 1%, versus an increase of \$2.3 million or 9% during fiscal year 2007.

Current liabilities are comprised primarily 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. Current liabilities were relatively unchanged as of June 30 2008, 2007, and 2006.

Non-current liabilities are comprised primarily of the calculated estimated liability due to life income annuitants. Non-current liabilities decreased approximately \$2 million or 9.2% as of June 30, 2008, from fiscal year 2007, due to a one-time cumulative change in accounting policy for accruing administration fees on the balances in these funds. As of June 30, 2007, non-current liabilities increased \$2.3 million or 9.6% from 2006 due to an increase in the calculated liability to beneficiaries, caused by both improvements in the fair market value of the trusts and extended life expectancies of the annuitants.

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS *(in thousands)*

	Year ended June 30		
	2008	2007	2006
Operating revenues/contributions	\$ 40,009	\$ 41,017	\$ 46,614
Operating expenses	(61,479)	(49,582)	(51,387)
Operating (loss)	(21,470)	(8,565)	(4,773)
Nonoperating income (loss)	(5,011)	61,416	28,943
Income before additions			
to permanent endowments	(26,481)	52,851	24,170
Additions to permanent endowments	14,653	35,149	49,495
Change in net assets	(11,828)	88,000	73,665
Net assets, beginning of the year	508,617	420,617	346,952
Net assets, end of the year	\$ 496,789	\$ 508,617	\$ 420,617

The Condensed Statements of Revenues, Expenses, and Changes in Net Assets reflect operating and nonoperating results for fiscal years 2008, 2007, and 2006.

During fiscal year 2008, operating revenue for the Foundation, consisting primarily of contributions, was \$40 million, a decrease of \$1 million, or 2%, from fiscal year 2007. The Foundation experienced a decrease in operating revenues of nearly \$5.6 million, or 12%, during fiscal year 2007 versus 2006. Fluctuations in the Foundation's operating revenues from year-to-year are not entirely predictable and are caused by a variety of factors, including donor timing of expendable pledges, payments, and outright gifts, the existence of a campaign and donor engagement, as well as the economic climate.

The primary component of operating expense is comprised of grants made to the campus by the Foundation, which occur in relation to campus needs for use of the funds. An operating loss resulted in 2008, as in the prior years presented, as support provided to the campus during each of the fiscal years exceeded contribution revenues. Support provided to the campus includes transfers of endowment spending, which is not included in operating revenues. The Foundation promotes the use of its funds by campus departments for the purposes they were given. Therefore, providing grants to the campus, even if in excess of operating revenue, is an important part of the Foundation's mission.

Net nonoperating income or loss relates to the Foundation's investment activities and change in the calculated liability payable to planned gift beneficiaries. During fiscal year 2008, net nonoperating losses were \$5.0 million, compared to net nonoperating income of \$61.4 million in fiscal year 2007 and \$28.9 million in fiscal year 2006, respectively. The loss experienced in fiscal year 2008 is primarily due to negative returns in the financial markets, which resulted in recognizing a loss in the value of investments of \$16.2 million. Conversely, the nonoperating income results in fiscal years 2007 and 2006 were primarily due to the recognition of significant gain on these investments in each of those years due to positive returns in the financial markets. Total return for the Foundation's Endowment Investment Pool was a negative 1.52% for the year ended June 30, 2008, versus a positive return of 19.22% for the year ended June 30, 2007, and 11.57% for the year ended June 30, 2006. The yield on short-term investments was 4.7% for the year(s) ended June 30, 2008, 4.7% for June 30, 2007, and 4.2% for June 30, 2006.

Additions to permanent endowment funds from gifts were \$14.6 million during fiscal year 2008, versus \$35.1 million in fiscal year 2007 and \$49.5 million in fiscal year 2006. The Foundation was the beneficiary of a large estate gift for endowment, the proceeds of which were received during fiscal years 2007 and 2006, as well as payment on a large endowed pledge received during fiscal year 2006. No single significant endowed gifts occurred during fiscal year 2008.

FACTORS IMPACTING FUTURE PERIODS

Factors that can significantly impact future periods always include the state of financial markets and returns, and the state of the overall economy. The former affects the value of investments and the latter can impact charitable giving.

STATEMENT OF NET ASSETS *June 30, 2008 and 2007*

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,491,792	\$ 821,722
Short-term investments	72,813,854	87,370,825
Pledges receivable, net of allowance for uncollectible receivables of \$1,052,527 and \$69,946 in 2008 and 2007, respectively	6,950,989	9,256,253
Other assets	294,202	122,080
Total current assets	82,550,837	97,570,880
Noncurrent assets		
Investments	397,685,420	401,184,411
Pledges receivable, net of allowance for uncollectible receivables of \$474,971 and \$1,411,706, and discount of \$24,008,531 and \$20,725,373 in 2008 and 2007, respectively	38,846,032	33,756,893
Other assets	1,674,050	2,163,950
Total noncurrent assets	438,205,502	437,105,254
Total assets	520,756,339	534,676,134
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	1,324,167	1,550,924
Agency funds	136,031	141,178
Liabilities to trust and other life income beneficiaries	2,789,198	2,658,626
Total current liabilities	4,249,396	4,350,728
Noncurrent liabilities		
Liabilities to trust and other life income beneficiaries	19,269,324	19,227,743
Other noncurrent liabilities	449,180	2,480,710
Total noncurrent liabilities	19,718,504	21,708,453
Total liabilities	23,967,900	26,059,181
Net assets		
Restricted		
Nonexpendable		
Endowments corpus	243,259,898	219,150,783
Trusts and other life income funds	4,686,023	5,573,276
Expendable		
Endowment spending	115,596,307	141,091,915
Annuity and life income funds	6,091,202	7,288,468
Funds functioning as endowments	13,999,843	13,851,748
Restricted gift funds	110,491,742	120,006,579
Unrestricted	2,663,424	1,654,184
Total net assets	\$ 496,788,439	\$ 508,616,953

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS *Years Ended June 30, 2008 and 2007*

	2008	2007
OPERATING REVENUES		
Contributions	\$ 40,008,690	\$ 40,891,496
Other income	—	125,511
Total operating revenues	40,008,690	41,017,007
OPERATING EXPENSES		
Grants to campus for programs	(61,356,485)	(51,415,438)
Allowance for uncollectible receivables	(45,847)	2,088,940
Administrative and other operating expenses	(77,111)	(255,594)
Total operating expenses	(61,479,443)	(49,582,092)
Operating loss	(21,470,753)	(8,565,085)
NONOPERATING (EXPENSE) INCOME		
Investment income	10,432,506	10,109,535
Change in fair value of investments	(16,202,026)	50,040,437
Change in calculated value of trust and other life income liabilities	2,690,378	1,266,818
Other nonoperating expense	(1,932,215)	—
Total nonoperating (expense) income	(5,011,357)	61,416,790
(Loss) Income before additions to permanent endowments	(26,482,110)	52,851,705
Additions to permanent endowments	14,653,596	35,148,613
Change in net assets	(11,828,514)	88,000,318
Net assets, beginning of the year	508,616,953	420,616,635
Net assets, end of the year	\$ 496,788,439	\$ 508,616,953

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

STATEMENTS OF CASH FLOWS Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Receipts from contributions	\$ 34,583,583	\$ 35,978,767
Payments to campus	(57,251,793)	(45,145,441)
Other receipts and payments	(6,015,463)	(9,130,510)
Net cash used by operating activities	(28,683,673)	(18,297,184)
CASH FLOWS FROM		
NON-CAPITAL FINANCING ACTIVITIES		
Private gifts for permanent endowments	13,492,458	31,367,583
Net cash provided by noncapital financing activities	13,492,458	31,367,583
CASH FLOWS FROM		
INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	156,374,870	51,281,793
Purchases of investments	(148,407,212)	(78,577,090)
Investment income, net of investment expense	8,893,627	12,475,819
Net cash provided (used) by investing activities	16,861,285	(14,819,478)
Net increase (decrease) in cash and cash equivalents	1,670,070	(1,749,079)
Cash and cash equivalents, beginning of the year	821,722	2,570,801
Cash and cash equivalents, end of year	\$ 2,491,792	\$ 821,722
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (21,470,753)	\$ (8,565,085)
Adjustments to reconcile operating loss to net cash used by operating activities		
Noncash gifts	(2,854,661)	(7,088,421)
Allowance for uncollectible receivables	45,847	(2,088,940)
Changes in operating assets and liabilities		
Pledges receivable	(2,829,721)	1,686,508
Other assets	259,275	317,358
Accounts payable	873,045	63,492
Annuities payable	(2,706,705)	(2,622,096)
Net cash used by operating activities	\$ (28,683,673)	\$ (18,297,184)
SUPPLEMENTAL NONCASH INVESTING ACTIVITIES DISCLOSURE		
Stock gifts—Current Expendable	\$ 2,854,661	\$ 7,088,421
Stock gifts—Endowed	\$ 925,472	\$ 4,048,784

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

1. Organization

The UC San Diego Foundation (the Foundation) is a California nonprofit corporation formed in 1972 and is governed by a forty-five-member Board of Trustees. The primary purpose of the Foundation is to encourage charitable donations to provide financial support for the University of California, San Diego (UCSD). As a public charity, the Foundation accepts donations to enhance the campus' many and varied teaching, research, and public service programs, as well as to support capital projects and other related campus improvements.

The Foundation is considered a component unit of The Regents of the University of California. UCSD provides the resources necessary to cover the costs of the operation and administration of the Foundation's activities including personnel, facilities, and administration. Per the University of California Policy and Guidelines on Campus Foundations, the Foundation's primary expenditures are related to grants made to the campus to support campus needs, in compliance with donor restrictions on gifts.

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 Governmental Accounting Standards Board (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 twelve months of the statement of net assets date. 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 twelve months of the statement of net assets date. All other assets and liabilities are considered to be noncurrent.

Cash and Cash Equivalents

The Foundation's cash and cash equivalents are its cash in bank, money market accounts, and cash held in its UCSD agency account, which is used to deposit Foundation contribution receipts and make transfers to campus to expend in accordance with donor restrictions.

Investments

The Foundation holds significant investments in the form of commingled pooled funds, equity securities, fixed income securities, as well as other investments. The Foundation's investment guidelines also permit alternative investments, primarily held in pools managed by the Treasurer's Office of the University of California. These include private equity, hedge funds, and real estate. The Foundation also holds real estate investments with an external manager.

Investments are carried at fair value. The basis of 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 such as the New York Stock Exchange or the National Association of Securities Dealers Automated Quotations. In the case of pooled funds or mutual funds, the fair value is determined by multiplying the number of units held in the pool by the price per unit share as quoted by the broker and/or investment manager.

The Foundation adopted GASB 52, "*Land and Other Real Estate Held as Investments by Endowments*", during the year. This statement requires the Foundation to record any land and real estate held in the endowment at fair value instead of cost. The Foundation is also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. The investments in real estate are stated at a fair value established by independent appraisals and reduced the current fair market value by \$663,000 in the Statements of Position as of June 30, 2008. The value of the investment in land and real estate are included and disclosed along with other investment balances.

Net Assets

The Foundation's net assets are classified into the following net asset categories:

Restricted—nonexpendable: Net assets subject to externally imposed conditions that the Foundation retains the principal in perpetuity and only the earnings on the net assets are to be expended. These are original net corpus of true donor designated endowed funds and balances from life income funds that will ultimately be designated as endowed funds upon maturity. To the extent that the market value of the fund is below its historical cost (corpus), the difference is recorded in the restricted nonexpendable category on the statement of net assets.

Restricted—expendable: Net assets subject to externally imposed conditions that can be fulfilled by the actions of the Foundation or by the passage of time. These net assets include accumulated appreciation on the endowment funds and 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: All other categories of net assets.

Classification of Revenues and Expenses

The Foundation considers operating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Net Assets to be those revenues and expenses that result from exchange transactions

or from other activities that are connected directly to the Foundation's primary functions. Exchange transactions include donations received by the Foundation, and the grants the Foundation makes to UCSD. Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement No. 34. These nonoperating activities include the Foundation's investment activities including net income and changes in fair value.

The net change in the fair value of investments consists of both realized and unrealized gain and loss on investments. Realized gains or losses resulting from specific transactions related to a single gift are accounted for in the specific gift fund. Gains or losses on the sale of components within any investment pool resulting from investment management decisions are attributed to the pool.

Endowments and Endowment Spending Policy

The Foundation's endowed funds are invested in a unitized pool in accordance with the *Endowment Investment and Spending Policies and Guidelines* adopted by the Board of Trustees and the Uniform Management of Institutional Funds Act (UMIFA). The Foundation has adopted the total-return approach to managing its endowment and similar funds. Investment decisions are based on a long-term investment strategy, with objectives of maximizing the endowment portfolio's long-term total return (yield plus appreciation) through prudent acceptance of risk to enhance the future purchasing power and preservation of capital. At June 30, 2008, the Foundation's endowment portfolio mix was 87% invested in various equity and alternative investment holdings, and 13% invested in fixed-income holdings. This is compared to 89% and 11%, respectively, at June 30, 2007. The Foundation, through its Investment/Finance Committee, continues to monitor and review its investment policy and asset mix to enhance the long term performance of the Endowment Investment Pool. The endowment earned a total return of -1.52% and 19.22%, respectively, for the fiscal years ended June 30, 2008 and 2007, net of investment fees.

Endowment spending is allocated to each endowment fund based on the spending rate set by Board policy, which gives consideration to total return, inflation, and the expendable income needs of the endowment fund holders. The endowment spending rate is set by the Board of Trustees annually. The rate remained the same for fiscal years 2008 and 2007 at 4.75% with 0.25% used to recover endowment administration costs. Endowment spending is calculated by multiplying the number of units owned by each endowment in the pool by the spending rate and the five-year average smoothing component. Spending is distributed to the individual endowment funds monthly based on average units held by the endowment.

Under UMIFA and the total return approach, annual endowment spending may be taken from both actual cash yield generated by the endowment investment portfolio and accumulated realized and unrealized appreciation in the portfolio. When the actual net cash income earned on the endowment investments (interest and dividends reduced by investment advisory fees) is less than the calculated spending, net realized and unrealized capital gains are appropriated. For the years ended June 30, 2008 and 2007, endowment spending allocated to endowed funds pursuant to the Foundation's established spending rate was \$12.5 million and \$11.1 million and endowment administration costs were approximately \$690,000 and \$615,000, respectively. Approximately \$5.1 million and \$4.6 million of appreciation or previously recognized gains were appropriated to support the spending

rate for the years ended June 30, 2008 and 2007, respectively. For certain newer endowments, volatility in the investment market may have reduced their market value to an amount less than the original gift value. For these endowments, spending allocations are limited to a pro rata share of actual cash investment earnings earned by that particular endowment fund.

Earnings on Expendable Funds

By UCSD policy, investment earnings on expendable gift fund balances held by the Foundation (and by UCSD) are not credited to individual funds. The first 2% earned on those funds are granted to the Vice Chancellor whose academic area is benefiting from the fund; the balance of any earnings is granted to UCSD for use by its External Relations division. Expenditure of the External Relations portion, in combination with other funding sources, is restricted to (1) paying the costs of operating the Foundation, and (2) funding for UCSD's External Relations' operations. During the fiscal years ended June 30, 2008 and 2007, the Foundation granted approximately \$1.9 million and \$2.2 million, respectively, of earnings to UCSD under this policy.

Charitable Remainder Trusts (CRTs)

The Foundation was the trustee and sole beneficiary of 16 and 17 irrevocable charitable remainder trusts and 1 lead trust entered into with 17 and 18 separate donors as of June 30, 2008 and 2007, respectively. 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. Trust investment assets are recorded in the financial statements in accordance with the classifications of other Foundation investments. Beneficiaries receive payments as specified in the trust agreements. The associated liability for these payments is recorded in the financial statements using recent life expectancy tables and certain other estimates in computing a present value of the liability. Upon the death of the life beneficiaries or at the end of the trust term, the trust is terminated, and the remaining assets are transferred to the appropriate Foundation fund and made available for the UCSD programs designated by the donor(s).

Grants and Annuities Society—Charitable Gift Annuity

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 in which donors gift assets in exchange for fixed annuity payments over the lifetime of the annuitant(s). As of June 30, 2008 and 2007, the Foundation had 134 contracts outstanding with 63 separate donors and 117 contracts with 55 donors, respectively. The present value of the life annuities associated with these contracts was computed using recent life expectancy tables and certain estimated rates. Both the CGA assets, and the associated liabilities, are recorded in the financial statements separately and are not netted. 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 net remainder from matured CGA contracts is used to fulfill the purposes set forth by the donor in the original annuity agreement.

Contributions and Pledges

Contributions to the Foundation are recorded at fair value when the eligibility requirements established by the donor have been satisfied. Pledges are written unconditional promises to make future contributions payments, and result in receivables that, if all eligibility requirements have been satisfied, are recognized as gift income at the discounted present value based on the expected future collections. Eligibility requirements for recognition of pledges receivable and the associated contribution revenue are satisfied when the Foundation can comply with both the purpose and time requirements imposed by donors. 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 nor recognized as assets or gift income until payments are actually received.

Administrative Fee on Contributions

Per UCSD policy, a flat 4% fee is assessed on all cash contributions (or those converted to cash, including contributions of stock) to the Foundation and to UCSD directly, which partially supports the operations of External Relations and prior to its conclusion as of June 30, 2007, the UCSD "Imagine What's Next" Campaign. The Foundation assessed fees under this policy totaling \$1.9 million and \$3 million during fiscal years 2008 and 2007, respectively. The Foundation also accrued an administrative fee of 1% per annum on life income funds and other noncash assets to cover expenses associated with the management of those assets over time. A revision to this policy in fiscal year 2008 to reverse the cumulative accruals and to assess the administrative fee only upon maturation on the lower of net proceeds or original value resulted in a \$1.9 million one-time non-operating expense adjustment.

Agency Affiliation with UCSD Alumni Association

The Foundation held and invested funds under an agency relationship with the UCSD Alumni Association. The UCSD Alumni Association is a legally separate 501(c)(3) support group organized to support various UCSD activities primarily for UCSD alumni. The Foundation acts as the financial fiduciary for these funds, which are recorded on the financial statements as a current liability. The corresponding assets are included in investments. The Alumni Association's funds totaled approximately \$136,000 and \$141,000 at June 30, 2008 and 2007, respectively.

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.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and revenue and 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*, 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.

Cash, cash equivalents, and investments consist of the following as of June 30, 2008 and 2007 (in thousands of dollars):

	2008	2007
CASH AND CASH EQUIVALENTS		
Commercial banks and money market funds	\$ 1,789	\$ 654
University of California Short-Term Investment Pool	703	168
Total cash and cash equivalents	2,492	822
INVESTMENTS		
Equity securities – domestic	242	1,064
Fixed income securities		
U.S. Treasury notes	4,501	4,627
Other U.S. dollar denominated		
U.S. agencies—asset-backed securities	2,098	2,448
Supranational/foreign	619	621
Commingled funds (a)		
Balanced funds	278,870	275,288
Absolute return	20,197	10,712
Private equity	5,150	3,031
U.S. equity funds	46,395	71,726
Non-U.S. equity funds	10,611	9,410
Real estate	20,380	12,063
U.S. bond funds	9,022	10,703
Money market funds	71,471	85,261
Other		
Real estate	910	1,572
Other	33	29
Total investments	470,499	488,555
Total cash, cash equivalents, and investments	\$ 472,991	\$ 489,377
AS CLASSIFIED ON THE STATEMENT OF NET ASSETS		
Current—cash and cash equivalents	\$ 2,492	\$ 822
Current—short-term investments	72,814	87,371
Noncurrent—investments	397,685	401,184
	\$ 472,991	\$ 489,377

(a) Commingled funds, per GASB 40, is an external investment pool that commingles (pools) the monies of more than one legally separate entity and invests, on the participant's behalf, in an investment portfolio and where one or more of the participants is not part of the sponsor's reporting entity.

Cash and Investment Management

The Foundation deposits and maintains cash in various commercial banks and brokerage accounts to meet operating needs and transfers the excess funds as often as necessary to its primary investment accounts. At June 30, 2008 and 2007, the Foundation had deposits in financial institutions with a bank balance of \$1,872,251 and \$797,893 and a carrying value of \$2,491,792 and \$821,722 of which none was covered by Federal Depository Insurance. This is further described in Note 3 with regard to custodial risk.

The Foundation invests primarily in two University of California commingled funds (UC pooled funds). The General Endowment Pool (GEP), which is a balanced portfolio containing equity, fixed-income securities and alternative investments and provides diversification and economies of scale. This fund is used as the core investment vehicle for the Foundation's endowed contributions. The Short-Term Investment Pool (STIP), which is a money market portfolio, and serves as the Foundation's core investment vehicle for expendable contributions. Certain other commingled funds created by the UC Treasurer's Office are used as investment vehicles for the Foundation's endowment investments, including the UC Absolute Return Pool, two Private Equity Vintage Year Portfolios, and Vintage Year Real Estate Portfolio.

The Foundation also utilizes investment funds that were created by the UC Treasurer's Office and held in custody accounts at State Street Global Advisors for its trusts and charitable gift annuity program. They are: The Russell 3000 Tobacco Free Index, a U.S. equity fund, comprised of stocks in the Russell 3000 index, excluding tobacco companies; The EAFE Index, a non-U.S. equity fund, comprised of the Morgan Stanley Capital Europe, Asia, Far East (EAFE) Index plus Canada, excluding U.S.; The Fixed Income Pool, a U.S. bond portfolio made up of U.S. government securities and mortgage backed and U.S. corporate bonds. The Russell 3000 Tobacco Free Index and the EAFE Index funds are managed by State Street Global Advisors and the Fixed Income Pool is managed by the Treasurer of the University of California.

Change in the Fair Value of 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 on investments that had been held more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the current year and include transactions arising from sale of contributed assets and liquidation of investment accounts during the year. The components of the change in fair value of investments (in thousands of dollars) are as follows:

	2008	2007
Change in unrealized (depreciation) appreciation on investments	\$ (25,405)	\$ 49,411
Realized gain on investments, net	9,203	629
Change in fair value of investments	\$ (16,202)	\$ 50,040

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. The circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond rating agencies such as Moody's Investors Service or Standard and Poor's. The lower the rating, the greater the chance that the bond issuer will default or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. The Foundation's investment in the university's STIP and HIP is considered to be an investment in an external investment pool and are "unrated." Similarly, the Fixed-Income Pool, managed by the Treasurer of the Regents, is an external commingled pool and also is "unrated."

The Foundation holds individual bonds in its charitable gift annuity reserve program. To mitigate credit risk in this portfolio, the Foundation's investment policy allows only the purchase of U.S. Treasuries of any maturity and up to 50% of the reserve account will be invested in U.S. Treasury and U.S. government agency fixed income.

In addition, the Foundation manages a separately invested permanent endowment created in 1994 under the auspices of the Debt for Education program sponsored by the government of Mexico in which the Foundation, in an agreement with the Mexican government, will maintain a trust account (currently with Banamex) and the endowment will be invested in U.S.-denominated Mexican domestic fixed income securities. The income from the bond will be repatriated back to the Foundation to support fellowships. The Foundation is exposed to credit risk for the amount of the investments in this Mexican account in the event of nonperformance by the other parties to the investment transactions.

The credit risk profile for fixed income securities at June 30, 2008 and 2007, is as follows (in thousands of dollars):

	2008	2007
FIXED INCOME SECURITIES		
U.S. government guaranteed	\$ 4,501	\$ 4,627
U.S. agencies	2,098	2,448
Supranational/foreign	619	621
	<u>7,218</u>	<u>7,696</u>
COMMINGLED FUNDS		
U.S. bond funds	9,022	10,703
Money market funds	71,471	85,261
	<u>80,493</u>	<u>95,964</u>
Total fixed-income securities	\$ 87,711	\$ 103,660

Custodial Credit Risk—Deposits and Investments

Custodial credit risk for deposits and investments is the risk that in the event of the failure of the custodian, the Foundation may not be able to recover the value of investment securities that are in the possession of an outside party.

The Board of Trustees of the Foundation, as the governing board, is responsible for oversight of the Foundation's investments. Pursuant to The Regents' Policy on Campus Foundations, the Foundation's Board of Trustees has the authority to oversee the management of its investments directly, or utilize the services and investment vehicles offered by the UC Regents' Treasurer's Office. The Foundation Board has chosen to primarily use the various pooled investment vehicles managed by the UC Regents' Treasurer as its core investment for the endowment and expendable funds and for its trusts. 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 (EAFE Index, Russell 3000 Index, and Fixed Income Fund), 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 are held in custodial accounts, and the securities are registered solely in the name of the U.C. San Diego 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 into money market funds represent ownership interest that did not exist in physical form. As a result, custodial credit risk is remote. For the Foundation's U.S. dollar and Peso bank cash accounts in Mexico, custodial risk for the U.S. dollar accounts is minimized by sweeping available cash balances into investment accounts on a regular basis. Custodial risk for Peso accounts is mitigated by only transferring to those accounts sufficient funds to pay bank fees and commissions as needed.

The Foundation minimizes cash balances by sweeping available balances into investment accounts on a regular basis. The majority of the cash balance not invested is maintained in The Regents' STIP fund. The STIP fund is managed by the Treasurer of The Regents. The Regents are responsible for managing the University's investments and establishing policy, which is carried out by the Treasurer. STIP in the cash equivalent category is considered to be an external investment pool and therefore is not subject to deposit custodial credit risk. 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 \$100,000 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 risk due to unforeseen dividends and gifts deposited at fiscal year end, but are rectified as soon as possible.

There is no custodial credit risk for fixed income securities at June 30, 2008 and 2007.

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 se-

curities with staggered maturity dates from one to ten years and uses 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.

The interest rate risk profile for fixed income securities at June 30, 2008 and 2007, is as follows (in thousands):

	Fair value		Weighted average maturity in years	
	2008	2007	2008	2007
FIXED INCOME SECURITIES				
U.S. government guaranteed	\$ 4,501	\$ 4,627	4.51	3.23
Total U.S. government guaranteed	4,501	4,627		
OTHER U.S. DOLLAR DENOMINATED				
U.S. agencies—				
asset-backed securities	2,098	2,448	1.80	2.43
Supranational/foreign	619	621	.13	1.13
Total other U.S. dollar denominated	2,717	3,069		
COMMINGLED FUNDS				
U.S. bond funds Not rated	9,022	10,703		
Money market funds Not rated	71,471	85,261		
Total commingled funds	80,493	95,964		
Total fixed income	\$ 87,711	\$ 103,660		

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, via its investment in The Regents' STIP fund, has no exposure to foreign currency risk. The Foundation's endowment asset allocation policy includes an allocation to non-U.S. equities. This exposure is obtained through investment in the GEP which has an internal allocation to non-U.S. securities. The Foundation also had foreign currency exposure through its investment in The Regents' EAFE Index due to the foreign currency denominated investments in this fund. Under the Foundation's investment policy, there is no provision to purchase individual foreign denominated securities.

4. Commitments

As of June 30, 2008, the UC San Diego Foundation's investment contractual commitments are as follows:

	Committed Amount	Investment Cost at 6/30/08	Remaining to Be Drawn
UC Absolute Return Pool	\$ 20,000,000	\$ 18,681,018	\$ 1,318,982
UC Private Equity Vintage Year Portfolio 2003	5,000,000	4,114,661	885,339
UC Private Equity Vintage Year Portfolio 2007	10,000,000	419,435	9,580,565
UC Vintage Year Real Estate Pool	9,000,000	3,442,552	5,557,448
	\$ 44,000,000	\$ 26,657,666	\$ 17,342,334

5. Pledges Receivable

At June 30, 2008 and 2007, unpaid pledges for expendable funds were designated for the following UCSD projects:

	2008	2007
Departmental support	\$ 30,192,626	\$ 27,030,527
Construction	26,351,371	22,449,858
Research	13,172,546	13,891,762
Student support	597,457	836,716
Other	1,019,050	1,011,308
Total gross pledges	71,333,050	65,220,171
Less allowance for uncollectible pledges	(1,527,498)	(1,481,652)
Less discount to present value	(24,008,531)	(20,725,373)
Total unpaid pledges (net of allowances and discounts)	\$ 45,797,021	\$ 43,013,146

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

Payments through June 30,	
2009	\$ 8,003
2010	6,399
2011	4,094
2012	8,380
2013	4,497
Thereafter	39,960
	\$ 71,333

As in previous years, an allowance for uncollectible pledges has been established based on specifically identified pledges, combined with a general allowance rate. The pledge allowance rate was applied on the total undiscounted unpaid pledges. Pledge payments extending beyond one year are discounted to recognize the present value of the future cash flows and have been discounted. Pledges recorded prior to fiscal year 2007 were discounted at a rate of 4%. Pledges recorded during fiscal year 2007 are discounted at 5% and 4.7% for 2008. The

discount rates will be applied for the life of the pledge. Pledges receivable from nineteen donors accounted for approximately 93% and fourteen donors for 87% of the gross pledges receivable balance at June 30, 2008 and 2007, respectively.

6. Grants to Campus for Programs

The primary purpose of the Foundation is to receive donations for the support of UC San Diego. During the year ended June 30, 2008 and 2007, the Foundation made transfers to the campus in compliance with donor restrictions for the purposes noted below. Ninety-nine areas of the campus were the beneficiaries of these transfers in 2008.

	2008	2007
Capital Project Construction	\$ 17,896,703	\$ 7,642,849
General Departmental Support	18,859,662	24,147,228
Research and Related Faculty Support	15,051,276	6,137,998
Student Aid (undergraduate and graduate)	5,032,683	6,550,947
Administrative Fees on Contributions Remitted to Campus	1,907,892	2,965,627
Interest Earnings Granted to Campus	1,922,396	2,196,757
Grants to Other Areas of Campus	685,873	1,774,032
	\$ 61,356,485	\$ 51,415,438

7. Related Party Transactions

During the year ended June 30, 2008 and 2007, approximately \$6.5 million and \$8.2 million in outright cash gifts (or approximately 12% and 11% of total contributions), respectively, was received from members of the Board and Board-affiliated corporations and organizations. Approximately \$1.3 million and \$2.6 million in pledges receivable (or approximately 2% and 4% of total gross pledges receivable) are from members of the Board and Board affiliated organizations as of June 30, 2008 and 2007, respectively.

8. 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 UCSD. Accordingly, the Foundation is considered a governmental not-for-profit organization subject to reporting under the GASB, and its result is reported as a component unit of the campus and The Regents. The Regents established a *Policy and Administrative Guidelines on Campus Foundations*, which requires that the Foundation transfer contributed expendable funds and endowment spending to The Regents for ultimate expenditure. The amounts transferred are stated in Note 6. Contributions that are made directly to The Regents for the benefit of UCSD are not recorded by the Foundation and are not reflected in the accompanying financial statements; contributions made to UCSD are reflected in the financial statements of the University.

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