



**University of California
San Francisco Foundation**

**Annual Financial Report
June 30, 2009 and 2008**

University of California San Francisco Foundation

Index

June 30, 2009 and 2008

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Report of Independent Auditors

The Board of Directors
University of California San Francisco 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 University of California San Francisco Foundation (the Foundation), a component unit of the University of California, at June 30, 2009 and 2008, and the changes in its financial position and 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.

The Management's Discussion and Analysis on pages 2-5 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 consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

August 28, 2009

University of California San Francisco Foundation

Management's Discussion and Analysis (Unaudited)

University of California San Francisco Foundation

Management's Discussion and Analysis

The following discussion and analysis presents an overview of the financial performance of the University of California San Francisco Foundation (the "Foundation") for the years ended June 30, 2009 ("2009") and 2008 ("2008"). It should be read in conjunction with, and is qualified in its entirety by, the related financial statements and footnotes. The financial statements, footnotes and this discussion and analysis were prepared by management and are the responsibility of management.

Financial Highlights

The following occurred in 2009:

- The Foundation's net assets decreased 5.1% or \$35.4 million to \$654.6 million at June 30, 2009 from \$690.0 million at June 30, 2008. This compares to a decrease of \$32.4 million or 4.5% for 2008.
- Gifts to the Foundation, both current and endowment, increased 10.4% or \$13.3 million to \$140.8 million for 2009 compared with \$127.5 million during 2008. The increase for 2009 compares to a decrease of \$9.7 million or 7.1% for 2008.
- The allowance for uncollectible pledges was decreased by \$0.3 million in 2009 to \$4.1 million at June 30, 2009 compared with \$4.4 million at June 30, 2008. This compares to a decrease of \$1.1 million for 2008. The allowance for uncollectible pledges as a percentage of total discounted pledges was 6.2% for 2009 compared to 6.1% for 2008.
- The fair value of Foundation investments decreased \$87.9 million in 2009. This compares to a decrease of \$48.1 million in 2008.

The Foundation, which invests primarily in equity and fixed income securities, recorded a nonoperating loss of \$77.8 million in 2009 which represents a return of (12.0%) on total cash, cash equivalents and investments; this compares with nonoperating loss of \$34.7 million in 2008 which represented a return of (5.3)%.

Using This Report

This annual report consists of a series of financial statements prepared in accordance with the statements of the Governmental Accounting Standards Board. These statements focus on the financial condition of the Foundation, its changes in net assets and its cash flows, taken as a whole.

One of the most important questions asked about Foundation finances is whether the Foundation is better off or worse off as a result of the year's activities. The key to understanding this question is the Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets 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 assets (the difference between assets and liabilities) are one indicator of the Foundation's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the Foundation's financial health when considered with other nonfinancial information.

The Statements of Net Assets include all assets and liabilities. The Statements of Revenues, Expenses and Changes in Net Assets report activities as either operating or nonoperating, with gifts and disbursements to University of California San Francisco ("UCSF") reported as operating revenue and expense, respectively, and investment results reported as nonoperating revenue or expense. These statements are prepared using the accrual basis of accounting.

University of California San Francisco Foundation

Management's Discussion and Analysis (Unaudited)

Another way to assess the financial health of the Foundation is to look at the Statements of Cash Flows. Their primary purpose is to provide relevant information about the cash receipts and cash payments of an entity. The Statements of Cash Flows help users assess an entity's ability to generate future net cash flows, its ability to meet its obligations as they come due and its needs for external financing.

Condensed Financial Information

Condensed Statements of Net Assets June 30, 2009 and 2008 (In Millions)

	2009	2008	Change	
			\$	%
Assets				
Current assets	\$ 76.9	\$ 62.9	\$ 14.0	22.3 %
Noncurrent assets	604.3	660.4	(56.1)	(8.5)%
Total assets	681.2	723.3	(42.1)	(5.8)%
Liabilities				
Current liabilities	13.9	18.8	(4.9)	(26.1)%
Noncurrent liabilities	12.7	14.5	(1.8)	(12.4)%
Total liabilities	26.6	33.3	(6.7)	(20.1)%
Net assets				
Restricted				
Nonexpendable	281.8	287.9	(6.1)	(2.1)%
Expendable	372.6	401.9	(29.3)	(7.3)%
Unrestricted	0.2	0.2	-	0.0 %
Total net assets	\$ 654.6	\$ 690.0	\$ (35.4)	(5.1)%

Foundation total assets at June 30, 2009 decreased 5.8% or \$42.1 million to \$681.2 million from \$723.3 million at June 30, 2008. Total assets include cash and cash equivalents, investments, pledges and investment income receivable, receivable for investments sold, externally managed trusts, and other assets. The decrease in cash and investments of \$36.2 million or 5.6% for 2009 can be attributed to nonoperating loss or investment results of \$77.8 million offset by operating income and additions to permanent endowments of \$23.5 million and \$18.9 million, respectively. Pledges receivable decreased by \$5.2 million — pledge payments and pledges revised exceeded new pledges by \$8.2 million. This net decrease was offset by a net decrease in the discount on multi-year pledges and the allowance for uncollectible pledges of \$3.0 million.

Foundation liabilities at June 30, 2009 decreased 20.1% or \$6.7 million to \$26.6 million from \$33.3 million at June 30, 2008. At June 30, 2009, liabilities to annuitants and life beneficiaries at \$13.3 million and agency funds held in trust at \$11.7 million are the largest components of the Foundation's liabilities.

University of California San Francisco Foundation

Management's Discussion and Analysis (Unaudited)

Condensed Statements of Revenues, Expenses and Changes In Net Assets For the Year Ended June 30, 2009 and 2008 (In Millions)

	<u>2009</u>	<u>2008</u>
Operating revenues & expenses		
Contributions	\$ 121.9	\$ 113.2
Disbursements to UCSF	(98.3)	(126.0)
Other operating (loss) income, net	<u>(0.1)</u>	<u>0.8</u>
Net operating income (loss)	23.5	(12.0)
Nonoperating income		
Net investment income	10.1	13.4
Net decrease in fair value of investments	<u>(87.9)</u>	<u>(48.1)</u>
Nonoperating (loss)	(77.8)	(34.7)
Additions to permanent endowments		
	<u>18.9</u>	<u>14.3</u>
(Decrease) in net assets	(35.4)	(32.4)
Net assets		
Net assets, beginning of year	<u>690.0</u>	<u>722.4</u>
Net assets, end of year	<u>\$ 654.6</u>	<u>\$ 690.0</u>

The Statements of Revenues, Expenses and Changes in Net Assets presents operating and nonoperating revenues and expenses for 2009 and reports a decrease in the Foundation's net assets of \$35.4 million in 2009 compared to an decrease of \$32.4 million in 2008. Net operating income and additions to permanent endowments totaling \$42.4 million were not sufficient to offset a nonoperating loss of \$77.8 million. Operating income is comprised primarily of gifts to UCSF Foundation offset by disbursements to UCSF; nonoperating income is comprised of change in fair value of investments and net investment income.

For 2009, the Foundation reported operating income of \$23.5 million, compared to operating loss of \$12.0 million for 2008. Contributions increased to \$121.9 million in 2009 from \$113.2 million in 2008, and this increase was offset by disbursements to UCSF of \$98.3 million in 2009 compared to \$126.0 million in 2008. Other operating expenses included a decrease in the provision for uncollectible pledges receivable of \$0.3 million compared to a decrease of \$1.1 million in 2008. The allowance for uncollectible pledges receivable is generally a minimum of 1% of discounted outstanding pledge amounts. A higher allowance may be used for specifically identified pledges as deemed necessary by management.

Nonoperating revenues include the results of investment activities. A net decrease in the fair value of investments of \$87.9 million was recognized in 2009 compared with an decrease of \$48.1 million in 2008. These amounts are before net investment income of \$10.1 million in 2009 compared to \$13.4 million in 2008.

Gifts to permanent endowments were \$18.9 million in 2009, an increase of \$4.6 million or 32.2% from 2008.

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

Factors Impacting Future Periods

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

University of California San Francisco Foundation
Statements of Net Assets
June 30, 2009 and 2008

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 44,356,683	\$ 40,010,629
Short-term investments	27,500,145	19,545,297
Receivable for investments sold	193,457	735,758
Accrued investment income	1,049,237	1,072,597
Pledges receivable, net	2,480,052	1,436,851
Other assets	1,405,267	136,600
Current assets	<u>76,984,841</u>	<u>62,937,732</u>
Noncurrent assets		
Investments, excluding endowments and trusts	74,853,647	86,257,205
Cash and cash equivalents, endowments and trusts	55,259,694	37,025,867
Investments, endowments and trusts	409,653,666	465,369,834
Funds held in trust by others	2,901,643	4,068,809
Accrued investment income, endowments	970,220	779,532
Pledges receivable, net	59,767,306	66,000,397
Other assets	894,720	855,055
Noncurrent assets	<u>604,300,896</u>	<u>660,356,699</u>
Total assets	<u>681,285,737</u>	<u>723,294,431</u>
Liabilities		
Current liabilities		
Payable for investments purchased	174,173	1,133,457
Agency funds held in trust	11,743,315	15,060,842
Annuities payable	569,451	591,480
Liabilities to life beneficiaries	971,787	1,313,505
Other liabilities	462,466	664,646
Current liabilities	<u>13,921,192</u>	<u>18,763,930</u>
Noncurrent liabilities		
Annuities payable	4,369,775	4,376,096
Liabilities to life beneficiaries	7,539,368	9,291,263
Other liabilities	823,820	871,781
Noncurrent liabilities	<u>12,732,963</u>	<u>14,539,140</u>
Total liabilities	<u>26,654,155</u>	<u>33,303,070</u>

(continued)

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

University of California San Francisco Foundation
Statements of Net Assets
June 30, 2009 and 2008

(continued)	2009	2008
Net Assets		
Restricted		
Nonexpendable		
Endowment corpus	280,710,062	286,293,510
Trusts-annuity and life income funds	1,037,945	1,589,559
Total nonexpendable	<u>281,748,007</u>	<u>287,883,069</u>
Expendable		
Endowment income and net appreciation	43,327,418	97,523,277
Quasi-endowments	84,766,626	72,240,533
Trusts-annuity and life income funds	14,978,680	20,319,991
Contributions	229,572,729	211,789,646
Total expendable	<u>372,645,453</u>	<u>401,873,447</u>
Total restricted	<u>654,393,460</u>	<u>689,756,516</u>
Unrestricted	238,122	234,845
Total net assets	<u>\$ 654,631,582</u>	<u>\$ 689,991,361</u>

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

University of California San Francisco Foundation
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenues		
Contributions	\$ 121,936,099	\$ 113,211,135
Total operating income	<u>121,936,099</u>	<u>113,211,135</u>
Operating expenses		
Disbursements to UCSF	98,347,676	125,996,592
Foundation operating expenses	329,164	342,966
Change in allowance for uncollectible pledges	<u>(259,581)</u>	<u>(1,136,723)</u>
Total operating expenses	<u>98,417,259</u>	<u>125,202,835</u>
Net operating income (loss)	<u>23,518,840</u>	<u>(11,991,700)</u>
Nonoperating income		
Investment income, net of investment expense	10,055,766	13,346,479
Net (decrease) in fair value of investments	<u>(87,854,721)</u>	<u>(48,114,616)</u>
Total nonoperating (loss)	<u>(77,798,955)</u>	<u>(34,768,137)</u>
(Loss) before other changes in net assets	(54,280,115)	(46,759,837)
Other changes in net assets		
Additions to permanent endowments	<u>18,920,336</u>	<u>14,328,052</u>
(Decrease) in net assets	(35,359,779)	(32,431,785)
Net assets at beginning of the year	<u>689,991,361</u>	<u>722,423,146</u>
Net assets at end of the year	<u>\$ 654,631,582</u>	<u>\$ 689,991,361</u>

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

University of California San Francisco Foundation
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Contributions	\$ 124,080,536	\$ 138,591,203
Disbursements to UCSF	(98,347,676)	(125,996,592)
Payments to beneficiaries	(1,716,204)	(1,976,762)
Payments for administrative or operating expenses	(323,314)	(340,716)
Agency funds (payments) receipts	(3,317,527)	10,135,152
Other receipts	1,666,377	1,976,762
	<u>22,042,192</u>	<u>22,389,047</u>
Net cash provided by operating activities	22,042,192	22,389,047
Cash flows from noncapital financing activities		
Contributions for permanent endowment purposes	18,920,336	14,328,054
Other payments	(1,179,849)	(621,003)
	<u>17,740,487</u>	<u>13,707,051</u>
Net cash provided by noncapital financing activities	17,740,487	13,707,051
Cash flows from investing activities		
Proceeds from sales and maturities of investments	157,753,903	129,431,698
Purchases of investments	(184,832,173)	(202,734,947)
Investment income, net of investment expense	9,875,472	12,961,942
	<u>(17,202,798)</u>	<u>(60,341,307)</u>
Net cash used in investing activities	(17,202,798)	(60,341,307)
Net increase (decrease) in cash and cash equivalents	22,579,881	(24,245,209)
Cash and cash equivalents at beginning of the year	<u>77,036,496</u>	<u>101,281,705</u>
Cash and cash equivalents at end of the year	<u>\$ 99,616,377</u>	<u>\$ 77,036,496</u>
Reconciliation of net operating income (loss) to net cash provided by operating activities		
Net operating income (loss)	\$ 23,518,840	\$ (11,991,700)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities		
Change in allowance for uncollectible pledges	(259,581)	(1,136,723)
Change in unamortized discount on pledges	(2,802,387)	(298,237)
Changes in assets and liabilities		
Pledges receivable	8,251,858	25,901,835
Funds held in trust by others	(43,895)	(32,809)
Real estate, net	-	-
Other assets and liabilities, net	(6,622,643)	9,946,681
	<u>(6,622,643)</u>	<u>9,946,681</u>
Net cash provided by operating activities	<u>\$ 22,042,192</u>	<u>\$ 22,389,047</u>

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

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2009 and 2008

1. Organization

The University of California San Francisco Foundation (the "Foundation") was incorporated on May 25, 1982 for the purpose of encouraging private giving to the University of California San Francisco ("UCSF"). The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and qualifies for exemption from income taxes under Section 501(a) of the Code. Expenditures of the Foundation are generally limited to disbursements in support of the Regents of the University of California (the "University") and normal administrative costs. The Foundation's financial statements are discretely presented in the University of California's financial statements as a component unit.

2. Summary of Significant Accounting Policies

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board through November 30, 1989 that do not conflict with, or contradict GASB standards. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits and money market funds, including those amounts held for long-term investment purposes that are classified as noncurrent cash and cash equivalents.

Investments

Investment securities are reported at a fair value. Marketable securities' fair values are based on quoted market prices obtained from independent sources. Investments in alternative investments, including limited partnerships, private equity funds, hedge funds and absolute return funds, are reported at a fair value by the general partner after considering factors such as the nature of the underlying portfolios, liquidity and market conditions. Because they are not readily marketable, the fair values may differ from the values that would have been used had a ready market for these investments existed. Investments in real estate are stated at a fair value as established by independent appraisals.

Short-term investments consist of U.S. government and corporate obligations with a maturity date of less than one year. All endowment and trust investments are classified as noncurrent regardless of maturity due to restrictions limiting the Foundation's ability to use these investments.

Investment income consists of dividend and interest income and is shown net of investment management and foundation management fees.

The net change in the fair value of investments consists of both realized and unrealized gain and loss on investments. The calculation of realized gain and loss on the sale of investments is independent of the calculation of the net change in the fair value of investments.

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2009 and 2008

Endowments

Endowments are invested in a unitized pool. Transactions within each individual endowment in the pool are based on the unit market value at the beginning or end of the month during which the transaction takes place for withdrawals and additions, respectively. It is the goal of the Foundation that the total return from endowment investments should be adequate to meet the following objectives:

- Preserve investment capital and its purchasing power.
- Generate sufficient resources to meet spending needs (payout).
- Attain reasonable capital appreciation through prudent acceptance of risk to enhance the future purchasing power of the investment capital.

Effective January 1, 2009, the Foundation adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA); in prior years, the Foundation was governed by the Uniform Management of Institutional Funds Act (UMIFA). Both Acts provide statutory guidance for management, investment and expenditures of endowed funds. UMIFA distinguished between the original gift, income and capital appreciation and limited spending or endowment payout to capital appreciation and income. It required reinvestment of the portion of payout derived from accumulated gains for permanent endowment funds with a market value that was less than the historic gift value, referred to as "underwater". UPMIFA eliminates these distinctions, and requires no reinvestment on underwater funds.

The annual payout rate is 5% of the average market value of the endowment investment pool for the previous 36 months less foundation management fees, with a floor and ceiling of 3.5% and 6%, respectively, of total year end market value. Payout is distributed to individual funds annually based on average units outstanding during the year.

Trusts

Trusts include irrevocable gift annuity, annuity trust and unitrust gifts made to the Foundation in which a designated beneficiary retains an interest in the gift as specified in the trust agreement. The Foundation is trustee and a remainderman for these trusts. For these funds, a liability for beneficiary payments is established representing the present value of estimated future beneficiary payments over the expected life of the life beneficiaries. The liability is calculated using standard gift annuity tables and applicable IRS guidelines. The remaining amount is recognized as revenue in the period in which the Foundation is notified that it is a remainderman or beneficiary.

Funds held in trust by others include assets for which the Foundation is a remainderman or has a life interest as beneficiary and for which there is an external trustee. In the period the Foundation is notified that it is a party to such a trust, the discounted present value of funds held in trust by others is recorded as revenue.

Pledges Receivable

Pledges are written unconditional promises to make future payments. Pledges receivable, other than endowment pledges, are recognized as contribution revenue in accordance with donor imposed restrictions, if any, in the period pledged as they meet the time requirements specified by GASB Statement No. 33. Endowment pledges are recognized as additions to endowments at the time payments are received. Pledge payments extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is accreted and recorded as additional contribution revenue. In addition, an allowance for uncollectible pledges has been established based on past experience as deemed necessary by management.

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2009 and 2008

Conditional promises, which depend on the occurrence of a specified future or uncertain event, such as matching gifts from other donors, are recognized as revenue when the conditions are substantially met.

Agency Funds Held in Trust

Agency funds held in trust represent funds held by the Foundation under an agency relationship with various support groups of UCSF or are funds held on behalf of the UCSF campus. Such amounts are not assets owned or contributed to the Foundation and, accordingly, are recorded as liabilities, and not as revenue, when received. The corresponding assets are included in investments.

Net Assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, net assets and revenues, expenses and gains and losses are classified and reported as follows, based on the existence or absence of donor-imposed restrictions.

Restricted Nonexpendable Net Assets

Restricted nonexpendable net assets include permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing investment income and appreciation that may be expended or added to principal in accordance with donors' wishes. The Foundation classifies the original endowment gift and any amounts added to principal per the donor's wishes, as restricted nonexpendable net assets. Trust resources that are not expendable upon maturity are also classified as restricted nonexpendable net assets.

Restricted-Expendable Net Assets

Restricted-expendable net assets relate to contributions designated by donors for use by particular entities or programs or for specific purposes or functions of UCSF. They also include quasi-endowments, which are internally restricted net assets that can be expended. Investment income and appreciation of endowment investments are classified as restricted expendable net assets unless otherwise specified by the donor. Trust resources that are expendable upon maturity are classified as restricted expendable net assets.

Unrestricted Net Assets

Unrestricted net assets are net assets of the Foundation that are not subject to donor-imposed restrictions.

Revenues and Expenses

Since they are fundamental to the core mission of the Foundation, contributions and pledges meeting the requirements of GASB Statement No. 33 are recognized as operating revenues in the period received or pledged. Disbursements in support of UCSF and certain administrative expenses incurred in conducting the business of the Foundation are presented in the financial statements as operating activities.

Nonoperating income and expenses include investment income and net realized gain (loss) on the sale of investments and change in unrealized appreciation (depreciation) on the value of investments held at the end of the period.

Gifts for permanent endowment purposes are classified as other changes in net assets.

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2009 and 2008

Use of Estimates

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

3. University of California

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

UCSF provides facilities and equipment for the Foundation and pays all salaries, benefits, and related expenses for employees, as well as some other operating expenses of the Foundation. The costs of such items are not included in the accompanying financial statements. Expenses related to investment management, insurance, legal, and other professional services are paid for by the Foundation.

UCSF charges the Foundation a management fee ("foundation management fee"), which is an administrative charge based on the average market value of the Foundation's cash, cash equivalents and investments, excluding trust investments. The foundation management fee is 0.35% and charged only against endowment assets. This fee is reduced by certain operating expenses of the Foundation. The foundation management fee was \$1,536,991 and \$1,506,598 for the years ended June 30, 2009 and 2008, respectively.

All contributions to the Foundation ultimately benefit UCSF. For the years ended June 30, 2009 and 2008, disbursements to the University were \$98,347,676 and \$125,996,592, respectively, from restricted expendable net assets. The accompanying financial statements reflect only contributions made to the Foundation; contributions made to UCSF are reflected in the financial statements of the University.

4. Cash and Cash Equivalents

The Foundation manages a substantial amount of its cash through its master custodian; other cash intended to meet operating needs is maintained in demand deposit accounts. All cash balances are minimized by sweeping available balances into investment accounts on a daily basis.

At June 30, 2009 and 2008, the carrying amount of the Foundation's cash and cash equivalents held in nationally recognized banking institutions was \$99,616,377 and \$77,036,496, respectively, compared to bank balances of \$99,722,965 and \$76,934,497, respectively. Deposits in transit are the primary difference. Bank balances are collateralized by U.S. government and corporate money market securities held in the name of the bank. The Federal Deposit Insurance Corporation (FDIC) insures the remaining uncollateralized bank balances.

The Foundation does not have exposure to foreign currency risk in its demand deposit accounts.

University of California San Francisco Foundation

Notes to Financial Statements

June 30, 2009 and 2008

5. Investments

Pursuant to the University's policies on campus foundations, the Foundation's Board of Directors has elected to oversee the management of its investments rather than delegating that function to the Treasurer of the University. The Board of Directors of the Foundation, as the governing Board, is responsible for oversight of the Foundation's investments. Establishment and implementation of investment policy, including the establishment of investment guidelines and the selection of investment managers, has been delegated by the Board of Directors of the Foundation to its Investment Committee.

The unendowed investment portfolio is managed so as to maximize returns consistent with safety of principal and liquidity considerations necessary to meet UCSF's cash flow requirements. Investments authorized by the Investment Committee include readily marketable money market and fixed income securities; other types of investments may be made with the prior approval of the Investment Committee.

The endowed portfolio is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. The primary investment objective of the endowed investment portfolio is growth of principal sufficient to preserve purchasing power and to provide income to support current and future UCSF activities. Long term, the total return on the portfolio should equal the rate of inflation, plus the payout rate which is used to support current activities, plus an amount reinvested to support future activities. Investments authorized by the Investment Committee include high quality, readily marketable equity and fixed income securities; other types of investments may be made with the prior approval of the Investment Committee.

The equity portion of the endowed portfolio may include both domestic and foreign equities, including foreign currency denominated, common and preferred stocks, actively managed and passive (index) strategies, along with an exposure to private equities, including venture capital partnerships, buy-out and international funds. Overall, the equity portfolio is measured against the Russell 3000 Index. Additional benchmarks have been established based on specific characteristics of groups of equities. For large, medium and small capitalization equities, the portfolio is measured against the Standard & Poor's 500 Index, the Russell Midcap Index, and the Russell 2500 Index, respectively. For foreign equities, the portfolio is measured against the EAFE Index.

The fixed income portion of the endowed portfolio may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. The effective duration of the fixed income portfolio is to be maintained in a range of 75%-125% of the effective duration of the benchmark Barclays Aggregate Bond Index.

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The composition of the Foundation's investments at June 30, 2009 and 2008 is as follows:

Investment Type	2009		2008	
	Fair Value	Cost	Fair Value	Cost
Equity securities				
Domestic	\$ 36,261,973	\$ 42,392,349	\$ 78,143,531	\$ 79,018,483
Foreign	4,582,641	5,901,121	6,868,896	6,539,389
Equity securities	40,844,614	48,293,470	85,012,427	85,557,872
Fixed income securities				
U.S. Treasury bills, notes & bonds	25,690,356	25,806,933	21,813,308	21,659,491
U.S. government- backed securities	3,267,232	3,104,005	4,030,207	3,999,130
U.S. government-backed, asset backed	252,779	240,445	375,951	360,273
U.S. government guaranteed	29,210,367	29,151,383	26,219,466	26,018,894
Other U.S. dollar denominated				
Corporate bonds	76,231,258	77,012,403	61,244,464	64,434,567
U.S. agencies	3,720,021	3,597,351	-	-
U.S. agencies, asset backed	59,729,053	57,940,128	80,612,249	80,362,250
Corporate - asset-backed securities	9,807,474	9,805,967	11,946,820	11,980,491
Other	1,067,852	1,160,665	-	-
Other U.S. dollar denominated	150,555,658	149,516,514	153,803,533	156,777,308
Commingled funds				
Absolute return funds	110,535,127	112,000,000	80,570,929	70,000,000
Balanced funds	20,302,198	29,089,494	25,323,884	29,562,260
U.S. equity funds	28,063,827	28,639,700	54,158,968	42,397,754
Non-U.S. equity funds	97,749,539	121,383,598	110,466,332	108,316,380
Commingled funds	256,650,691	291,112,792	270,520,113	250,276,394
Private equity	21,843,833	26,886,869	19,296,373	20,521,084
Real estate	12,902,295	14,643,665	16,320,423	13,785,707
Externally held irrevocable trusts	2,901,643	4,663,806	4,068,809	4,724,892
Total investments	514,909,101	564,268,499	575,241,144	557,662,151
Less: current portion	27,500,145	27,772,537	19,545,297	19,552,631
Noncurrent portion	\$ 487,408,956	\$ 536,495,962	\$ 555,695,847	\$ 538,109,520

The components of the net change in fair value of investments for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
(Decrease) in net unrealized appreciation on investments	\$ (66,938,391)	\$ (62,307,756)
Net realized (loss) gain on sale of investments	(20,916,330)	14,193,140
Net (decrease) in fair value of investments	\$ (87,854,721)	\$ (48,114,616)

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Net investment income for the years ended June 30, 2009 and 2008 is as follows:

	2009	2008
Total investment income	\$ 12,760,712	\$ 16,169,332
Less: investment management fees	(1,167,955)	(1,315,975)
Less: foundation management fees	<u>(1,536,991)</u>	<u>(1,506,878)</u>
Net investment income	<u>\$ 10,055,766</u>	<u>\$ 13,346,479</u>

6. Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such investment behavioral factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the security price to decline. The circumstances may arise due to a variety of factors, such as liquidity, financial weakness or bankruptcy. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have little or no credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, such as Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

The investment guidelines for the unendowed portfolio recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark. The benchmark for the unendowed portfolio, the Barclays 1-3 year U.S. Treasury Index reflects a return with little or no credit risk. Commercial paper, banker's acceptances and certificates of deposit issuers must be rated P-1 (Moody's)/A-1 (S&P) or better at the time of purchase, with the long term securities of the issuer rated A3 (Moody's)/A- (S&P) or better; fixed income securities must be rated investment grade Baa3 (Moody's)/BBB- (S&P) or better at the time of purchase; asset-backed securities must be rated Aa3 (Moody's)/AA- (S&P) or better at the time of purchase. No more than 20% of the portfolio at the time of purchase may be invested in securities rated below Aa3 (Moody's)/AA- (S&P).

Credit risk is appropriate in the endowed portfolio, as evidenced by the benchmark chosen for the fixed income portion of the portfolio, the Barclays Aggregate Bond Index. Portfolio guidelines for this portfolio mandate that no more than 20% of the market value of the fixed income portfolio may be invested in issues that are unrated or that have credit ratings below investment grade by Moody's or S&P. Further, the weighted average credit rating must be maintained at a minimum investment grade quality of Baa3 (Moody's)/BBB- (S&P) or higher at all times.

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The credit risk profile for fixed income securities at June 30, 2009 and 2008 is as follows:

	2009	2008
U.S. government guaranteed	<u>\$ 29,210,367</u>	<u>\$ 26,219,466</u>
Other U.S. dollar denominated		
AAA	74,515,681	92,559,089
AA	10,920,893	14,405,500
A	25,742,021	13,317,324
BBB	22,539,026	14,258,767
BB	4,376,383	6,025,397
B	2,704,807	3,160,286
CCC	7,443,086	1,693,125
C	384,476	-
Not rated	<u>1,929,285</u>	<u>8,384,046</u>
Total other U.S. dollar denominated	<u>150,555,658</u>	<u>153,803,534</u>
Total fixed income securities	<u>\$ 179,766,025</u>	<u>\$ 180,023,000</u>

Custodial Credit Risk

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

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

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash equivalents, U.S. government and federal agency obligations, common stocks and corporate debt securities. Federal agency obligations consist primarily of collateralized mortgage obligations, which are collateralized by diversified home mortgages. The remainder of the portfolio is diversified and issuers are dispersed throughout many industries and geographies.

The equity portion of the Foundation's portfolios may be managed passively or actively. For the portion managed passively, the concentration of individual securities is equal to their concentration in the relative benchmark. With respect to the actively managed portfolio, investment policy requires that the portfolio be adequately diversified to limit exposure to concentration of credit risk.

Within the unendowed portfolio, Foundation investment policy requires that at the time of purchase no more than 5% of the total market value of the portfolio be invested in any single issuer, with the exception of securities issued or guaranteed by the U.S. government, its agencies, or government sponsored enterprises, or collateralized by such securities or loans. Endowed portfolio investment policy requires that equity securities be diversified among at least 20 issuers, with no more than 5% of the total market value of the portfolio, at the time of purchase, in any one issuer. In addition, up to 15% of the portfolio may be invested in equities issued by small cap companies defined as companies with capitalizations below \$600 million.

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Investments in issuers that represent 5% or more of total Foundation investments at June 30, 2009 and 2008 are as follows:

	2009	2008
Issuer		
Fannie Mae	\$ 44,150,715	\$ 62,897,426
Baupost BVP-IV	\$ 29,186,384	\$ -
Silchester International Value Equity Trust	\$ 25,795,941	\$ 29,308,599
Gryphon International EAFE Growth Fund	\$ -	\$ 28,623,061

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (one percentage point) change in the level of interest rates. It is not a measure of time.

Portfolio guidelines limit the maximum weighted average effective duration of the unendowed portfolio to not greater than 125% of the benchmark Lehman Brothers 1-3 Year U.S. Treasury Index; seven years is the maximum stated maturity or average life for an individual security. The effective duration of the fixed income portion of the endowed portfolio is to be maintained in a range of 75% to 125% of the effective duration of the benchmark Barclays Aggregate Bond Index. This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark. Portfolio durations for 2009 and 2008 are presented for the combined unendowed and endowed portfolios and reflect this change in benchmark.

The effective duration of the Foundation's fixed income securities at June 30, 2009 and 2008 follows. Information presented does not take into account the relative weighting of the portfolio components to the total portfolio.

	2009	2008
U.S. government		
U.S. Treasury notes	0.32	0.48
U.S. government backed securities	3.88	3.80
Other U.S. dollar denominated		
Corporate bonds	3.63	3.98
U.S. agencies	1.97	2.45
Corporate - asset-backed securities	0.50	0.64

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

Mortgage Pass-Through Securities

These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (Freddie Mac), and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

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Collateralized Mortgage Obligations

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

Callable Bonds

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The Foundation must then replace the called bond with a bond that may have a lower yield than the original bond. The call feature causes the fair value to be highly sensitive to changes in interest rates.

Corporate Asset-Backed Securities

Corporate asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates.

At June 30, 2009 and 2008, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

	2009	2008
Investments Highly Sensitive to Changes in Interest Rates		
Mortgage pass-through securities	\$ 56,325,885	\$ 72,939,401
Collateralized mortgage obligations	5,592,571	8,048,799
Corporate asset-backed securities	7,870,850	11,946,820
Callable bonds	420,000	506,312
	<u>\$ 70,209,306</u>	<u>\$ 93,441,332</u>

At June 30, 2009 and 2008, the effective duration for fixed income securities that are considered to be highly sensitive to changes in interest rates is as follows:

	2009	2008
Effective Duration of Investments Highly Sensitive to Changes in Interest Rates		
Mortgage pass-through securities	1.97	2.53
Collateralized mortgage obligations	1.97	1.74
Corporate asset-backed securities	0.50	0.64
Callable bonds	8.62	-

Foreign Currency Risk

The Foundation's asset allocation policy includes an allocation to non-U.S. equities. These investments are not hedged, therefore foreign currency risk is an accepted risk of the investment

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strategy. Portfolio guidelines for fixed income securities also allow exposure to non-U.S. dollar denominated bonds. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the investment policies, such instruments are not permitted for speculative use or to create leverage.

At June 30, 2009 and 2008, the U.S. dollar balances organized by currency denominations and investment type are as follows:

	2009	2008
Equity Securities		
Swiss Franc	\$ 1,276,650	\$ 1,282,374
Japanese Yen	1,035,584	2,576,247
European Monetary Unit	1,027,215	1,313,658
British Pound	962,892	1,565,515
Israel Shekel	217,096	-
Mexican Peso	63,204	131,102
Total equity securities	<u>4,582,641</u>	<u>6,868,896</u>
Commingled Funds		
Various currency denominations:		
Balanced funds – Non-U.S. equity	97,749,539	110,466,332
Total commingled funds	<u>97,749,539</u>	<u>110,466,332</u>
Total exposure to foreign currency risk	<u>\$ 102,332,180</u>	<u>\$ 117,335,228</u>

Alternative Investment Risks

Alternative investments include ownership interests in a wide variety of partnership and fund structures that may be domestic or offshore. Generally, there is little or no regulation of these investments by the Securities and Exchange Commission or U.S. state attorneys general. These investments employ a wide variety of strategies including absolute return, hedge, venture capital, private equity and other strategies. Investments in this category may employ leverage to enhance the investment return. Underlying investments can include financial assets such as marketable securities, non-marketable securities, derivatives, and synthetic and structured instruments; real assets; tangible and intangible assets; and other funds and partnerships. Generally, these investments do not have a ready market. Interest in these investments may not be traded without approval of the general partner or fund management.

Alternative investments are subject to all of the risks described previously related to equities and fixed income instruments. In addition, the underlying assets may not be held by a custodian either because they cannot be, or because the entity has chosen not to hold them in this form. Valuations determined by the investment manager, who has a conflict of interest in that he or she is compensated for performance are considered and reviewed by the Foundation management and Investment Committee. Real assets may be subject to physical damage from a variety of means, loss from natural causes, theft of assets, lawsuits involving rights and other loss and damage. These risks may not be insured or insurable. Tangible assets are subject to loss from theft and other criminal actions and from natural causes. Intangible assets are subject to legal challenge and other possible impairment. Broadly, alternative strategies and their underlying assets and rights are subject to an array of economic and market vagaries that can limit or erode value.

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7. Endowment Payout

Endowment pool investment income for the years ended June 30, 2009 and 2008 consists of the following:

	2009	2008
Total endowment pool investment income	\$ 7,792,063	\$ 10,235,720
Less: investment and foundation management fees	(2,517,661)	(2,638,763)
Less: endowment payout allocation	<u>(5,250,000)</u>	<u>(7,550,000)</u>
Investment income reinvested in the endowment pool	<u>\$ 24,402</u>	<u>\$ 46,957</u>

As a result of market volatility, the market value of some permanent endowments can be less than the historical gift value of such endowments. The underwater amount of such endowments was \$26,006,857 and \$3,747,673 at June 30, 2009 and 2008, respectively. Under UPMIFA, investment income and accumulated realized and unrealized gains may be expended in support of the operational requirements of UCSF programs. Prior to adoption of UPMIFA, the Foundation was governed by UMIFA which required reinvestment of payout derived from net accumulated gains to permanent endowment funds that were "underwater." For the years ended June 30, 2009 and 2008 endowment payout was comprised of the following:

	2009	2008
Investment income, net	\$ 5,250,000	\$ 7,550,000
Net accumulated gains and corpus	<u>15,170,019</u>	<u>12,469,953</u>
Endowment payout	20,420,019	20,019,953
Less: reinvestment of payout	<u>N/A</u>	<u>(1,378,201)</u>
Endowment payout available for disbursement	<u>\$ 20,420,019</u>	<u>\$ 18,641,752</u>

Endowment payout is shown net of endowment portfolio related foundation management fees of \$1,536,991 and \$1,506,598 for 2009 and 2008, respectively.

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8. Pledges Receivable

Pledges receivable at June 30, 2009 and 2008 consist of the following unconditional promises to give:

	2009	2008
Pledges due in one year or less	\$ 4,428,854	\$ 3,211,075
Less: allowance for uncollectible pledges	<u>(1,948,802)</u>	<u>(1,774,224)</u>
Pledges receivable, current	<u>2,480,052</u>	<u>1,436,851</u>
Pledges due between one and five years	51,065,442	53,756,070
Pledges due in more than five years	<u>23,363,616</u>	<u>30,142,625</u>
Pledges due in more than one year	74,429,058	83,898,695
Less: allowance for uncollectible pledges	(2,146,169)	(2,580,328)
Less: unamortized discount	<u>(12,515,583)</u>	<u>(15,317,970)</u>
Pledges receivable, non-current	<u>59,767,306</u>	<u>66,000,397</u>
Total pledges receivable	<u>\$ 62,247,358</u>	<u>\$ 67,437,248</u>

Pledges from one donor represent 63.1% in the aggregate of total pledges receivable at June 30, 2009. Pledges from one donor represent 64.9% in the aggregate of total pledges receivable at June 30, 2008.

9. Commitments

As of June 30, 2009, the Foundation has contractual commitments to invest an additional \$38,939,273 in various endowment pool investments through June 30, 2022.