

JONSSON CANCER CENTER FOUNDATION / UCLA

Financial Statements

June 30, 2019 and 2018

(With Independent Auditor's Report Thereon)

JONSSON CANCER CENTER FOUNDATION / UCLA

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Report of Independent Auditors

To the Board of Trustees of
Jonsson Cancer Center Foundation/UCLA:

We have audited the accompanying financial statements of The Jonsson Cancer Center Foundation/UCLA (the "Foundation"), a component unit of the University of California, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation as of June 30, 2019 and 2018, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matter

The accompanying management's discussion and analysis on pages 3 through 7 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Los Angeles, California
November 15, 2019

JONSSON CANCER CENTER FOUNDATION / UCLA

Management's Discussion and Analysis

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The Jonsson Cancer Center Foundation/UCLA (Foundation), formerly the California Institute for Cancer Research, was established in 1956. The primary purpose of the Foundation is to raise and distribute funds for cancer research at the University of California, Los Angeles (UCLA). Donations to the Foundation come, predominately, from individuals committed to eradicating cancer and who are inspired by the high quality of cancer research conducted at UCLA in the Jonsson Comprehensive Cancer Center (JCCC).

The following discussion and analysis of the Foundation's financial performance presents an overview of its financial activities for the fiscal year ended June 30, 2019 (FY19), with selected comparative information for the fiscal year ended June 30, 2018 (FY18), and the fiscal year ended June 30, 2017 (FY17). 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 financial statements and notes.

Using This Report

This annual report consists of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—For State and Local Governments*.

One of the most important questions asked about the Foundation's finances is whether the Foundation is better or worse off as a result of the year's activities. The keys to understanding this question are the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. These statements present financial information in a form similar to that used by private sector companies. The Foundation's net position (the difference between assets and liabilities) is one indicator of the Foundation's financial health. Over time, increases or decreases in net position are one indicator of the improvement or erosion of the Foundation's financial condition when considered in combination with other non-financial information.

The Statements of Net Position include all assets and liabilities. The Statements of Revenues, Expenses and Changes in Net Position present revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Operating revenues include current use gifts to the Foundation and operating expenses include program support. Investment results are reported as non-operating income (loss). These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Another way to assess the financial health of the Foundation is to look at the Statements of Cash Flows. Its primary purpose is to provide relevant information about the sources and uses of cash of an entity during a given period, and it helps users assess an entity's ability to generate cash flows.

JONSSON CANCER CENTER FOUNDATION / UCLA

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Condensed Financial Information

	<u>2019</u>	<u>FY 2019-2018 change percentage</u>	<u>2018</u>	<u>FY 2018-2017 change percentage</u>	<u>2017</u>
Assets					
Cash	\$ 80,394	-56%	\$ 184,397	\$ 9%	\$ 168,630
Investments					
Short- Term Investments	7,760,016	-23%	10,058,610	35%	7,467,486
Long- Term Investments	8,168,725	2%	8,013,310	6%	7,563,178
Total Investments	<u>15,928,741</u>	<u>-12%</u>	<u>18,071,920</u>	<u>20%</u>	<u>15,030,664</u>
Pledges receivable, net	11,467,136	-18%	13,901,271	-8%	15,063,808
Beneficial Interest in Split Interest Agreements	317,128	-86%	2,341,830	3%	2,275,368
Other assets	804,062	159%	310,371	-52%	646,692
Total assets	<u>28,597,461</u>	<u>-18%</u>	<u>34,809,789</u>	<u>5%</u>	<u>33,185,162</u>
Liabilities					
Current liabilities	129,170	-96%	2,917,104	100%	1,457,236
Total liabilities	<u>129,170</u>	<u>-96%</u>	<u>2,917,104</u>	<u>100%</u>	<u>1,457,236</u>
Deferred inflow of resources					
Deferred inflow- gift receipts	317,128	-86%	2,341,830	3%	2,275,368
Total deferred inflow of resources	<u>317,128</u>	<u>-86%</u>	<u>2,341,830</u>	<u>3%</u>	<u>2,275,368</u>
Net Positions					
Restricted net position	17,746,379	-9%	19,540,600	-4%	20,441,841
Unrestricted net position	10,404,784	4%	10,010,255	11%	9,010,717
Total Net Position	<u>\$ 28,151,163</u>	<u>-5%</u>	<u>\$ 29,550,855</u>	<u>\$ 0%</u>	<u>\$ 29,452,558</u>
Revenues and expenses					
Operating revenues					
Contributions	13,213,748	-20%	\$ 16,451,467	\$ -9%	\$ 18,114,595
Event revenue	42,400	-51%	85,800	10%	78,200
Total operating revenues	<u>13,256,148</u>	<u>-20%</u>	<u>16,537,267</u>	<u>-9%</u>	<u>18,192,795</u>
Operating expenses					
Program support	14,183,578	-12%	16,161,378	35%	11,966,742
Fundraising	444,126	-8%	480,769	18%	408,752
Management and general	768,727	20%	640,213	-11%	723,371
Total operating expenses	<u>15,396,431</u>	<u>-11%</u>	<u>17,282,360</u>	<u>32%</u>	<u>13,098,865</u>
Net operating income	<u>(2,140,283)</u>	<u>187%</u>	<u>(745,093)</u>	<u>-115%</u>	<u>5,093,930</u>
Non-operating income					
Investment income	257,738	42%	181,219	100%	90,737
Realized gains (losses) and changes in fair value of investments, net	482,853	-27%	662,171	-31%	958,044
Total non-operating income (loss), net	<u>740,591</u>	<u>-12%</u>	<u>843,390</u>	<u>-20%</u>	<u>1,048,781</u>
Change in net position	<u>(1,399,692)</u>	<u>-1524%</u>	<u>\$ 98,297</u>	<u>\$ -98%</u>	<u>\$ 6,142,711</u>

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Management's Discussion and Analysis

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Financial Highlights

In FY19, the Foundation's total assets decreased 18% or \$6.2 million to \$28.6 million at June 30, 2019 from \$34.8 million at June 30, 2018. The decrease in FY19 was primarily due to short term investments, split interest agreements and pledge receivables which decreased by \$2.3 million \$2.0 million and \$2.4 million respectively. The short term investment account is where the Foundation holds funds designated for campus and this reduction correlates to the reduction in current liabilities. In FY18, the Foundation's total assets increased 5% or \$1.6 million to \$34.8 million at June 30, 2018 from \$33.2 million at June 30, 2017. The increase in FY18 was primarily due to investments which increased by \$3 million, in part due to increased current liabilities, and was offset by decreases in pledge receivables which decreased by \$1.2 million.

In FY19, liabilities of the Foundation decreased by 96% or \$2.8 million to \$129 thousand from \$2.9 million in FY18. In FY18, liabilities of the Foundation increased by 100% or \$1.5 million to \$2.9 million from \$1.4 million in FY17. The decreases in FY19 was due the fact that gifts received in FY19 were fully processed and transferred to the Cancer Center and other divisions/departments by the end of FY19. This decrease in liabilities in FY19 correlates to the reduction in the short term investment account, where the funds are held. . The increase in FY18 liabilities was due to large donor directed gifts received in the last few days of the fiscal year or payments still in transit at fiscal year-end. Deferred inflow-gift receipts decreased by 86% or \$2.0 million to \$317 thousand at June 30, 2019 from \$2.3 million at June 30, 2018. The decrease in FY19 was due to the receipt of a deferred gift for \$2.0 million. This correlates to the reduction in split interest agreements.

Contributions to the Foundation decreased by 20% or \$3.2 million to \$13.3 million in FY19 as compared to \$16.5 million in FY18. This was primarily due to the timing of major gifts and not as many major gifts committed in FY19. Contributions to the Foundation decreased by 9% or \$1.7 million to \$16.5 million in FY18 as compared to \$18.2 million in FY17. This was primarily due to a decrease in planned giving of \$3.1 million from FY17 partially offset by an increase in major gifts received in FY18.

Assets

Foundation assets include cash, investments, pledges receivable, and other assets. Other assets include gift and event receipts in process and prepaid expenses to UCLA. In FY19, the Foundation's investments decreased 12% or \$2.2 million to \$15.9 million at June 30, 2019 from \$18.1 million at June 30, 2018. The decrease in FY19 was due the fact that gifts received in FY19 were fully processed and transferred to the Cancer Center and other divisions/departments by the end of FY19 and thus the Foundation had fewer funds in the short term investment account, where funds "in transit" are held. Pledges receivable decreased 18% or \$2.4 million to \$11.5 million (net of discount and allowance) at June 30, 2019 from \$13.9 million at June 30, 2018. This decrease is the result of the fact that new pledges in FY19 did not match or exceed pledge payments received in FY19 (which were for existing pledges booked in previous fiscal years.)

In FY18, the Foundation's investments increased 20% or \$3 million to \$18.1 million at June 30, 2018 from \$15 million at June 30, 2017. This was primarily due to two factors: positive investment returns of \$662 thousand and contributions received in FY18 but not paid out as gifts until the following fiscal year.

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June 30, 2019 and 2018

The latter correlates to the current liabilities. In FY18 pledges receivable decreased 8% or \$1.2 million to \$13.9 million (net of discount and allowance) at June 30, 2018 from \$15.1 million at June 30, 2017. This decrease is the result of new pledges booked in FY18 of \$4.1 million (net of discount and allowance) offset by pledge payments of \$5.2 million and pledges charged off of \$108 thousand. Gift and event receipts in process decreased \$362 thousand due to a number of donor gift payments received and processed earlier in June than the previous year.

Operating Revenues and Expenses

The condensed schedules of revenues, expenses and changes in net position summarize operating income and non-operating income (loss) for FY19, FY18, and FY17. In FY19, the Foundation's contribution revenue decreased by 20% or \$3.2 million to \$13.3 million from \$16.5 million in FY18. This was primarily due to the timing of major gifts and that not as many major gifts were committed in FY19.

Program support decreased 12% or \$2 million to \$14.2 million in FY19 compared to \$16.2 million in FY18 due primarily to a reduction in major gifts received in FY19. Fundraising costs decreased 8% or \$36 thousand to \$444 thousand in FY19 compared to \$481 thousand in FY18. This decrease was due to a reduction in expenses associated with Estates and Trusts. Management and general expenses increased 20% or \$129 thousand to \$769 thousand in FY19 compared to \$640 thousand in FY18. This increase was within the approved fiscal year budget.

Contribution revenue decreased by 9% or \$1.7 million in FY18 versus FY17 due to a decrease in planned giving of \$3.1 million for FY18, partially offset by an increase in major gifts received in FY18.

Program support increased 35% to \$16.2 million in FY18 compared to \$12 million in FY17 due primarily to an increase in pledge payments which were expended to campus. Fundraising costs increased 18% to \$481 thousand in FY18 compared to \$409 thousand in FY17. This increase was largely due to an increase in event expenses. Management and general expenses decreased 11% to \$640 thousand in FY18 compared to \$723 thousand in FY17.

Total expenses exceeded total revenue in FY19 because grants and similar amounts paid, as Program Support, included payments from pledges accrued in previous fiscal years.

Non-operating Income (Loss)

In FY19, non-operating income decreased by 12% or \$102 thousand to \$741 thousand from \$843 thousand in FY18. This was primarily due to a market correction in the second quarter which affected investment performance for both the General Endowment Pool (GEP) managed by the UC Regents as well as the Endowed Investment Pool (EIP) managed by the UCLA Investment Company. In FY19, the GEP experienced a gain of 3.4% while the EIP experienced a reduction of 1.1%.

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Non-operating income in FY18 decreased by 20% or \$206 thousand to \$843 thousand compared to \$1 million in FY17. This was primarily due to the market correction in the third quarter which affected investment performance for both the General Endowment Pool (GEP) managed by the UC Regents as well as the Endowed Investment Pool (EIP) managed by the UCLA Investment Company. In FY18, the GEP experienced a gain of 6.2% while the EIP returned 5.5%.

Factors Impacting Future Periods

Management is not aware of any factors that would have a significant impact on future periods

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Statements of Net Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash	\$ 80,394	\$ 184,397
Short-term investments	7,760,016	10,058,610
Gift and event receipts in process	463,142	133,540
Prepaid expenses	315,287	151,691
Accrued investment income	25,633	25,140
Pledges receivable, net	<u>3,533,735</u>	<u>4,606,428</u>
Total current assets	<u>12,178,207</u>	<u>15,159,806</u>
Non-current assets:		
Long-term investments	8,168,725	8,013,310
Beneficial interest in irrevocable split interest agreements	317,128	2,341,830
Pledges receivable, net	<u>7,933,401</u>	<u>9,294,843</u>
Total non-current assets	<u>16,419,254</u>	<u>19,649,983</u>
Total assets	<u>\$ 28,597,461</u>	<u>\$ 34,809,789</u>
Liabilities		
Current liabilities		
Grants payable	129,014	2,491,448
Accounts payable and other non-operating accrued expenses	<u>156</u>	<u>425,656</u>
Total liabilities	<u>129,170</u>	<u>2,917,104</u>
Deferred Inflow of Resources		
Deferred inflow - gift receipts	<u>317,128</u>	<u>2,341,830</u>
Total deferred inflow of resources	<u>317,128</u>	<u>2,341,830</u>
Net position		
Restricted expendable gifts	17,746,379	19,540,600
Unrestricted	<u>10,404,784</u>	<u>10,010,255</u>
Total net position	<u>\$ 28,151,163</u>	<u>\$ 29,550,855</u>

See accompanying notes to financial statements

JONSSON CANCER CENTER FOUNDATION / UCLA

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues		
Contributions	\$ 13,213,748	\$ 16,451,467
Event revenue	42,400	85,800
Total operating revenues	<u>13,256,148</u>	<u>16,537,267</u>
Operating expenses		
Program support	14,183,578	16,161,378
Fundraising	444,126	480,769
Management and general	768,727	640,213
Total operating expenses	<u>15,396,431</u>	<u>17,282,360</u>
Net operating loss	<u>(2,140,283)</u>	<u>(745,093)</u>
Non-operating income		
Investment income	257,738	181,219
Realized gains and change in fair value of investments, net	<u>482,853</u>	<u>662,171</u>
Total non-operating income, net	<u>740,591</u>	<u>843,390</u>
Increase (decrease) in net position	<u>(1,399,692)</u>	<u>98,297</u>
Net position		
Beginning of year	<u>29,550,855</u>	<u>29,452,558</u>
End of year	<u>28,151,163</u>	<u>29,550,855</u>

See accompanying notes to financial statements.

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Statement of Cash Flows

June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Contributions	\$ 14,485,253	17,164,760
Event Revenue	42,400	82,800
Program Support	(16,546,014)	(15,094,263)
Fundraising	(444,907)	(489,134)
Management and General	(932,321)	(667,944)
Net cash used in (provided by) operating activities	(3,395,589)	996,219
Cash flows from noncapital financing activities:		
Receipt of endowed funds	(400,000)	400,000
Net cash (used in) provided by noncapital financing activities	(400,000)	400,000
Cash flows from investing activities:		
Proceeds from sales of investments	3,691,126	967,880
Purchase of investments	(339,505)	(2,591,125)
Interest and dividends on investments	339,965	242,793
Net cash provided by (used in) investing activities	3,691,586	(1,380,452)
Net decrease (increase) in cash	(104,003)	15,767
Cash		
Beginning of year	184,397	168,630
End of year	\$ 80,394	\$ 184,397
Reconciliation of net operating loss to net cash used by operating activities		
Net operating loss	(2,140,283)	(745,093)
Adjustments to reconcile net operating loss to net cash (used in) provided by operating activities		
Non-cash gifts	(833,027)	(814,432)
Provision for uncollectible pledges receivable	120,881	103,968
Changes in assets and liabilities		
Gift and event receipts in process	(329,603)	362,188
Prepaid expenses	(163,594)	(27,463)
Pledges receivable, net	2,313,254	1,058,569
Accounts and grants payable	(2,363,217)	1,058,482
Net cash (used in) provided by operating activities	\$ (3,395,589)	\$ 996,219
Supplemental non-cash activities information		
Gifts of securities	833,027	814,432
Beneficial interests in irrevocable split interest agreements administered by third parties *	92,968	1,625

See accompanying notes to financial statements

JONSSON CANCER CENTER FOUNDATION / UCLA

Notes to Financial Statements

June 30, 2019 and 2018

(1) Organization

The Jonsson Cancer Center Foundation / UCLA (Foundation), formerly the California Institute for Cancer Research, was established in 1956. The Foundation is a nonprofit organization whose primary purpose is to raise and distribute funds for cancer research at the University of California, Los Angeles (UCLA). The Foundation is a component unit of the University of California.

The Foundation raises funds in two broad areas: donor directed grants and programmatic support for the Jonsson Comprehensive Cancer Center (JCCC) at UCLA. Donor directed grants are typically designated by the donor for research being undertaken by a specific doctor or for a particular project. JCCC programmatic support donations are, in turn, unrestricted by the donor. The Foundation pools these unrestricted gifts to accumulate significant funds for cancer research, such as seed grants, next generation technology, and impact grants which support collaboration between researchers. This information is detailed further in footnote (6) Program Support on page 21.

The Foundation is governed by a Board of Directors and the director of the JCCC serves as the president of the Foundation. In the event of the dissolution of the Foundation, any and all assets held in its name shall be distributed to UCLA for use in the investigation of the causes, treatment, and cure of the diseases known as cancer, under the direction of the Dean of the David Geffen School of Medicine. Accordingly, the Foundation is considered a governmental not-for-profit organization, subject to reporting under the Governmental Accounting Standards Board (GASB).

UCLA provides the facilities and the staff for the operation and administration of the Foundation's activities. The Foundation transfers gift funds to the UC Regents or The UCLA Foundation, which assumes responsibility for actual disbursement in accordance with the donor's wishes. The Foundation has one independently operated chapter located in the greater Los Angeles area that assisted in the fundraising effort.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Accounting

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles including all applicable effective standards of the GASB. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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(b) Cash

The Foundation manages its cash through major banking institutions. At June 30, 2019 and 2018, the carrying amount of the Foundation's cash held in nationally recognized banking institutions was approximately \$80 thousand and \$184 thousand, respectively. At June 30, 2019, the Foundation's cash in banks did not exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits. At June 30, 2019 and 2018 the Foundation's cash in banks did not exceed the Federal Deposit Insurance Corporations (FDIC) insurance limits. To mitigate custodial risk, the Foundation conducts business with fiscally sound banks with national recognition.

(c) Investments

Investments are measured and recorded at fair value. As a component of the University of California, the Foundation's investment policy requires that all funds be invested with the University of California (UC) through The UCLA Foundation or the UC Regents. The Foundation participates in several external investment pools sponsored by either the UC Regents or The UCLA Foundation. These investment pools are not registered with the Securities and Exchange Commission (SEC). The Foundation's investments in external investment pools are reported at net asset value (NAV) as determined by the pool's respective manager (the UC Regents or The UCLA Foundation). As such, these investments are excluded from the fair value level hierarchy. Management believes that NAV is a practical expedient to estimating fair value. The basis for determining the fair value of pooled funds is determined as the number of units held in the pool multiplied by the price-per-unit share.

(d) Gift and event receipts in process

The Foundation records gift and event receipts in process when donor payments are dated prior to the fiscal year-end but are not received or processed by The Foundation until after fiscal year-end. Also included are credit card gift payments made by the donor in one fiscal year but not yet settled by the bank until the following fiscal year.

(e) Pledges Receivable

Pledges are written unconditional promises to make future payments. The Foundation recognizes a receivable and revenue at the time the pledge is made by the donor on the basis that the pledge is verifiable, measurable, probable of collection, and meets all applicable eligibility requirements according to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Pledges extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is accreted and reported as additional contribution revenue in accordance with donor imposed restrictions, if any. In addition, pledges are reported net of an allowance, which includes

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specific reserves for items that are past due in payments, if applicable, as well as a general reserve which is based on the Foundation's three-year rolling average loss experience. Conditional pledges, which depend on the occurrence of a specified future or uncertain event, such as matching gifts from other donors or time restrictions on expenditures, as well as all pledges for endowment purposes, are recognized when the conditions are substantially met.

(f) Endowed Funds Payable

The Foundation collects endowed funds for endowments on campus. These funds are paid soon after receipt to the designated fund. These funds are not recorded as revenue since they are permanently restricted assets for another organization. All endowed assets received by the Foundation are considered a liability to the university until paid. One item of note is that the Foundation facilitated raising a \$2 million endowed pledge on behalf of UCLA, not reflected on these financials in pledges receivable, and will play a critical part in collecting and transferring these funds to campus.

(g) Deferred Inflows

Deferred inflows of resources represent an acquisition of net position that applies to a future period. The Foundation classifies changes in irrevocable split-interest agreements as deferred inflows of resources. These amounts will be recognized as revenue at the termination of the split-interest agreements. Deferred inflows also include contributions received from donors which do not yet meet the time requirements to be recorded as revenue under government accounting standards. These amounts will be reclassified to gift revenue when all time requirements have been met.

(h) Net Position

When possible, the Foundation uses restricted resources when an expense is incurred for which both restricted and unrestricted resources are available. Net position comprises the following:

Restricted expendable gifts – donations to the Foundation that are restricted by the donor for a specific purpose or pledges receivable net of discount and allowance.

Unrestricted – the net position of the Foundation that is not subject to donor-imposed restrictions.

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Notes to Financial Statements

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(i) *Classification of Revenues and Expenses*

Operating revenues include contributions from various donors and the guild chapter as well as event revenue representing the value of tickets and other items sold at fundraising events. Operating expenses include program support, fundraising, management and general. Program support is disbursed to the UC Regents or The UCLA Foundation in support of cancer research and care activities consistent with the donor's wishes or, in the case of unrestricted funds, in support of UCLA programs selected by Foundation management in consultation with the JCCC academic leadership. Non-operating income and loss include interest and investment distributions, net realized gains (losses) on the sale of investments, and change in the fair value of investments held at the end of the period.

(j) *Non-Monetary Transactions*

From time to time the Foundation receives gifts or pledge payments in the form of stocks or securities. The Foundation uses the brokerage accounts and services of The UCLA Foundation acting as agent to receive and sell these securities. It is the policy of the Foundation to liquidate investment securities as soon as is practicable from the date of receipt. Gifts of stocks and securities are valued at the average (high and low) market price on the date of transfer and recorded as contribution revenue or as a reduction of pledges receivable, if applicable. The difference between the gift value and actual proceeds received (net of brokerage fees) is recorded as realized gains (losses) on the Statements of Revenues, Expenses, and Changes in Net Position.

(k) *Use of Estimates*

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 may differ from those estimates.

(l) *Income Taxes*

The Foundation is 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, also known as unrelated business income. The Foundation did not engage in unrelated business activities and therefore did not record an income tax provision.

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Notes to Financial Statements

June 30, 2019 and 2018

(3) Investments

For the years ended June 30, 2019 and 2018, the Foundation held investments with both the UC Regents and The UCLA Foundation. The UC Regents, as the governing board, is responsible for the oversight of its investments and establishes an investment policy which is carried out by the Chief Investment Officer. Oversight for The UCLA Foundation’s investments is provided by the UCLA Investment Company and The UCLA Foundation boards of directors.

Composition of Investments (as classified on the Statements of Net Position)

	<u>2019</u>	<u>2018</u>
Short-term		
The UCLA Foundation Unendowed Investment Pool	\$7,733,720	\$10,039,638
University of California Regents' Short Term Investment Pool	26,296	18,972
Short-term investments	<u>7,760,016</u>	<u>10,058,610</u>
Long-term		
University of California Regents' General Endowment Pool	5,655,536	5,471,775
The UCLA Foundation Endowed Investment Pool	2,513,189	2,541,535
Long-term investments	<u>8,168,725</u>	<u>8,013,310</u>
Total Investments	<u>15,928,741</u>	<u>18,071,920</u>

The UCLA Foundation’s Unendowed Investment Pool (UIP) is invested in the UC Regents’ Short Term Investment Pool (STIP). Funds for gifts “in transit” to the Cancer Center and other departments/divisions are held in the STIP account until the transfer is complete. The decrease of the STIP in FY19 was due the fact that gifts received in FY19 were fully processed and transferred to the Cancer Center and other divisions/departments by the end of FY19. The University of California Regents’ STIP authorized investments include fixed-income securities with a maximum maturity of five and one-half years. In addition, The Regents have also authorized loans, primarily to faculty members residing in California, under the University’s Mortgage Origination Program with terms up to 40 years.

The University of California Regents’ General Endowment Pool (GEP) asset allocation policy currently allows the portfolio to be invested as 20%-52.5% equity securities, 10%-32.5% private equity, 15%-32% strategic opportunities, 3%-17.5% real assets and 0% -17.5% liquidity (income).

The UCLA Foundation’s Endowed Investment Pool (EIP) asset allocation policy allows the portfolio to be invested in 30%-75% equity securities, 0-25% private equity/venture capital, 5%-20% multi-strategy, 0-15% credit, 0-15% real assets, 0-10% each of cash and real estate.

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Composition of Investments (by investment type)

	<u>2019</u>	<u>2018</u>
Commingled money market funds	\$7,760,016	\$10,058,610
Commingled balanced funds	8,168,725	8,013,310
Total Investments	<u>\$15,928,741</u>	<u>\$18,071,920</u>

Investments are exposed to several risks, such as market, credit, foreign currency, and interest rate risk, which can affect the value of the investments.

(a) Credit Risk

Fixed income securities are subject to credit risk, which is the probability 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 security prices to decline. Neither the UC Regents' STIP nor The UCLA Foundation's UIP are rated by credit rating agencies.

(b) Custodial Risk

Custodial risk is the risk that in the event of the failure of the custodian, the investments may not be returned. The Foundation invests in the various pooled investment vehicles managed by the UC Regents and The UCLA Foundation. 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.

(c) 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. The UC Regents investment guidelines addressing concentration of credit risk related to the investment grade fixed-income portion of the portfolios include a limit of no more than 3% of each portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). For high-yield and emerging market debt, the corresponding limit is 5%. The UCLA Foundation investment pools' allocation to the credit portfolio is diversified across credit asset classes and holds a mixture of investment grade and high yield securities of performing and non-performing debt. Accordingly, there are no investments in any one issuer that represents 5% or more of total fixed income investments.

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(d) Interest Rate Risk

Interest rate risk is the risk that fixed income securities will decline because of rising interest rates. The Foundation measures interest rate risk using the effective duration method. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time. The interest rate risk schedule summarizes the average effective duration of its portfolio:

	<u>2019</u>	<u>2018</u>
	<i>(effective duration in years)</i>	
Commingled money market funds	1.2	2.0
Commingled balanced funds	3.1	4.1

(4) Fair Value

Fair value is defined in accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1.

Level 2 – Quoted prices in the markets that are not considered to be active, dealer quotations, or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly are classified as Level 2.

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Level 3 – Investments and beneficial interest in irrevocable split interest agreements classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments and beneficial interest in irrevocable split interest agreements are based upon the best information in the circumstance and may require significant management judgment. Level 3 financial instruments include real estate, and beneficial interest in irrevocable split interest agreements. The Foundation uses the market approach to fair value the beneficial interest in split interest agreements. Real estate, as part of the beneficial interest in irrevocable split interest agreements, is fair valued using the market approach to valuation.

Net Asset Value (NAV) – Investments which use NAV as a practical expedient to determine fair value are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV. The Foundation invests in various external investment pools managed either by the University of California or The UCLA Foundation. Each of these pools (see footnote 3) transacts at a share price or NAV as determined by the University of California (UC) or The UCLA Foundation based upon the underlying fair values of the pooled investments. Additional information on the UC investment pools can be obtained from the 2019 Annual Financial Report of the University of California. Additional information on The UCLA Foundation investment pool can be obtained from its 2019 Financial Statements. The following tables summarize JCCF’s commingled funds at June 30, 2019 and June 30, 2018:

	Fair Value Measurements Using				
	Quoted Prices in	Significant		Net Asset	Not Levelled
	Active Markets for	Significant Other	Unobservable		
	identical Assets	Observable Inputs	Inputs	(NAV)	Total
(Level 1)	(Level 2)	(Level 3)	(NAV)	Total	
Commingled funds	-	-	-	15,928,741	15,928,741
Total Investments				\$15,928,741	\$15,928,741
<hr/>					
Beneficial interests in irrevocable split interest agreements			317,128		

	Fair Value Measurements Using				
	Quoted Prices in	Significant		Net Asset	Not Levelled
	Active Markets for	Significant Other	Unobservable		
	identical Assets	Observable Inputs	Inputs	(NAV)	Total
(Level 1)	(Level 2)	(Level 3)	(NAV)	Total	
Commingled funds	-	-	-	18,071,920	18,071,920
Total Investments				\$18,071,920	\$18,071,920
<hr/>					
Beneficial interests in irrevocable split interest agreements			2,341,830		

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The Foundation uses the NAV as a practical expedient to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following tables list investments by major category for the years ending June 30, 2019, and June 30, 2018.

As of 6/30/2019

Category of Investment	Investment Strategy	Fair Value Determined Using	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions
NAV						
Commingled funds money market funds	Investments in external commingled funds that invest in high quality money market and fixed income instruments with the objective to maximize returns consistent with safety of principal, liquidity, and cash flow requirements.	\$ 7,760,016		- Not Applicable	48 hours notice	Not Applicable
Commingled funds balanced funds	Investments in external commingled funds that have an asset allocation to equity securities, alternative investments and fixed income instruments	8,168,725		- Not Applicable	Redemption terms range from monthly to quarterly with 10 days prior written notice.	Not Applicable
Total		\$ 15,928,741				

As of 6/30/2018

Category of Investment	Investment Strategy	Fair Value Determined Using	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions
NAV						
Commingled funds money market funds	Investments in external commingled funds that invest in high quality money market and fixed income instruments with the objective to maximize returns consistent with safety of principal, liquidity, and cash flow requirements.	\$ 10,058,610		- Not Applicable	48 hours notice	Not Applicable
Commingled funds balanced funds	Investments in external commingled funds that have an asset allocation to equity securities, alternative investments and fixed income instruments	8,013,310		- Not Applicable	Redemption terms range from monthly to quarterly with 10 days prior written notice.	Not Applicable
Total		\$ 18,071,920				

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(5) Pledges Receivable

Pledges receivable are unconditional promises to pay a specific amount and consist of the following at June 30, 2019 and June 30, 2018:

	<u>2019</u>	<u>2018</u>
Pledges Receivable, Gross	\$11,904,488	\$14,280,880
Less:		
Allowance for uncollectible pledges	(148,056)	(54,175)
Discount for future pledges	<u>(289,296)</u>	<u>(325,434)</u>
	<u>\$11,467,136</u>	<u>\$13,901,271</u>
Current pledges receivable, net	3,533,735	4,606,428
Non-current pledges receivable, net	<u>7,933,401</u>	<u>9,294,843</u>
	<u>\$11,467,136</u>	<u>\$13,901,271</u>

Management evaluates the collectability of its receivables and records an allowance for estimated uncollectible amounts. The Foundation recorded a loss provision of \$27 thousand in FY19 and a loss provision of \$108 thousand in FY18. Both amounts were recorded as adjustments to contribution revenue. In addition, the Foundation recorded an increase in contribution revenue due to present value accretion in FY19 of \$36 and \$55 thousand in FY18. Pledges due beyond one year have been discounted using rates ranging from 2.4% in June 30, 2019 to 1.6% in June 30, 2018. Ninety-three percent of pledges receivable, net of discount, are from six donors in fiscal year 2019 as compared to ninety-three percent in fiscal year 2018.

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(6) Program Support

Grants made in support of Foundation programs are as follows:

	<u>2019</u>	<u>2018</u>
Donor directed grants	\$11,375,898	\$12,601,378
JCCC programmatic support:		
Seed and Impact Grants	450,000	450,000
Clinical/translational research	246,401	250,000
Director's discovery	1,801,279	2,550,000
Information/outreach	50,000	50,000
Next generation technology	125,000	125,000
Other program areas	35,000	35,000
Strategic investment and innovative faculty	100,000	100,000
Total	<u>\$14,183,578</u>	<u>\$16,161,378</u>

(7) Related Parties

The Foundation exists for the sole purpose of supporting cancer research at UCLA and has the following organizational relationship with the University:

(a) *Administrative Costs*

The Foundation has a Board of Directors and designated officers; however the Foundation does not have direct employees. All functions and activities of the Foundation are conducted by employees of UCLA. These UCLA employees are covered by the Regents' pension plan and postretirement healthcare plan. The Foundation reimburses UCLA for these costs. These personnel expenses are included in management and general expenses in the Statement of Revenues, Expenses, and Changes in Net Position.

All of the Foundation's office space is provided by the University. Accordingly, the costs of the office space are not included in the accompanying financial statements.

(b) *Gift Fees*

In accordance with relevant UCLA policies, gift fees are assessed by the University for the purpose of partially defraying the costs of its overall operation. The standard gift fee is computed as 6.5% of the gift amount. Accordingly, the gift fee is included in program expenses in the accompanying financial statements and totaled \$918 thousand for the year ended June 30, 2019 and \$1 million for the year ended June 30, 2018.