



**THE UCLA FOUNDATION**

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

# THE UCLA FOUNDATION

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**KPMG LLP**  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

## **Independent Auditors' Report**

The Board of Directors  
The UCLA Foundation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The UCLA Foundation, a component unit of the University of California, as of and for the year ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise The UCLA Foundation's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The UCLA Foundation as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



## **Other Matters**

### ***Required Supplementary Information***

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

**KPMG LLP**

Los Angeles, California  
October 5, 2015

## THE UCLA FOUNDATION

### Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

The UCLA Foundation, formerly the UCLA Progress Fund, Inc., was established in 1945. The primary purpose of The UCLA Foundation is to actively promote philanthropy and manage donated resources for the advancement of UCLA. The UCLA Foundation provides an efficient vehicle for accepting all types of private donations and gifts as an adjunct to money also raised for UCLA through The Regents of the University of California.

The following discussion and analysis of The UCLA Foundation's financial performance presents an overview of its financial activities for the fiscal year ended June 30, 2015 (FY15), with selected comparative information for the fiscal year ended June 30, 2014 (FY14), and the fiscal year ended June 30, 2013 (FY13). 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 UCLA Foundation finances is whether The UCLA 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 UCLA Foundation's net position (the difference between assets and liabilities and deferred inflows) is one indicator of The UCLA Foundation's financial health. Over time, increases or decreases in net position is one indicator of the improvement or erosion of The UCLA Foundation's financial condition when considered in combination with other nonfinancial information.

The statements of net position include all assets and liabilities and deferred inflows. 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 nonoperating. Operating revenues include current use (nonendowed) gifts to The UCLA Foundation and operating expenses include gift fund distributions such as grants to the campus and investment results reported as nonoperating revenues. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Another way to assess the financial health of The UCLA 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.

**THE UCLA FOUNDATION**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2015 and 2014  
Condensed Financial Information  
*(in thousands of dollars)*

	2015	FY 2015-2014 change percentage	2014	FY 2014-2013 change percentage	2013
<b>Assets</b>					
Cash	\$ 3,910	58%	\$ 2,470	21%	\$ 2,049
Investments:					
Short-term investments	286,046	3%	278,144	9%	255,173
Long-term investments	<u>1,883,535</u>	5%	<u>1,797,272</u>	12%	<u>1,599,351</u>
Total investments	2,169,581	5%	2,075,416	12%	1,854,524
Pledges receivable, net	443,653	-2%	452,827	34%	338,699
Other assets	<u>60,698</u>	245%	<u>17,599</u>	9%	<u>16,144</u>
Total assets	<u>2,677,842</u>	5%	<u>2,548,312</u>	15%	<u>2,211,416</u>
<b>Liabilities</b>					
Current liabilities	247,627	5%	236,024	9%	216,480
Noncurrent liabilities	<u>31,641</u>	-6%	<u>33,646</u>	-2%	<u>34,505</u>
Total liabilities	<u>279,268</u>	4%	<u>269,670</u>	7%	<u>250,985</u>
<b>Deferred inflow of resources</b>					
Deferred inflow - gift receipts	<u>1,428</u>		<u>—</u>		<u>—</u>
Total deferred inflow of resources	<u>1,428</u>		<u>—</u>		<u>—</u>
<b>Net position</b>					
Restricted net position	2,324,941	6%	2,183,121	18%	1,855,863
Unrestricted net position	<u>72,205</u>	-24%	<u>95,521</u>	-9%	<u>104,568</u>
Total net position	<u>\$ 2,397,146</u>	5%	<u>\$ 2,278,642</u>	16%	<u>\$ 1,960,431</u>
<b>Revenues and expenses</b>					
<b>Operating revenues</b>					
Contribution revenues	\$ <u>186,517</u>	-32%	\$ <u>274,203</u>	8%	\$ <u>252,960</u>
Total operating revenues	<u>186,517</u>	-32%	<u>274,203</u>	8%	<u>252,960</u>
<b>Operating expenses</b>					
Gift fund distributions	208,760	1%	205,945	-15%	241,445
Management and general expenses	<u>30,597</u>	10%	<u>27,757</u>	6%	<u>26,267</u>
Total operating expenses	<u>239,357</u>	2%	<u>233,702</u>	-13%	<u>267,712</u>
Net operating income (loss)	<u>(52,840)</u>	-230%	<u>40,501</u>	375%	<u>(14,752)</u>
<b>Nonoperating revenues (expenses)</b>					
Realized and unrealized gain (loss) on investments	75,640	-52%	158,213	4%	151,630
Other nonoperating revenues, net	<u>28,723</u>	-37%	<u>45,497</u>	-4%	<u>47,456</u>
Total nonoperating revenues (expenses)	<u>104,363</u>	-49%	<u>203,710</u>	2%	<u>199,086</u>
<b>Private gifts of permanent endowments</b>					
	<u>66,981</u>	-9%	<u>74,000</u>	38%	<u>53,572</u>
Change in net position	<u>\$ 118,504</u>	-63%	<u>\$ 318,211</u>	34%	<u>\$ 237,906</u>

## THE UCLA FOUNDATION

### Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

#### Financial Highlights

In FY15, The UCLA Foundation's total assets increased 5% or \$129.5 million to \$2,677.8 million at June 30, 2015, from \$2,548.3 million at June 30, 2014. This increase, as well as a FY14 increase in assets of \$336.9 million over FY13, was primarily due to positive investment returns from the endowed investment pool of 6.4% and 13.92% in FY15 and FY14, respectively.

Gifts to The UCLA Foundation decreased \$94.7 million in FY15 to \$253.5 million, down from \$348.2 million in FY14, a 27% decrease. In FY14, total gifts to The UCLA Foundation increased \$41.7 million from \$306.5 million to \$348.2 million, a 14% increase. Please see the *Operating and Nonoperating Revenues and Expenses* section below for further details.

#### Assets

Assets increased 5% or \$129.5 million to \$2,677.8 million from \$2,548.3 million at June 30, 2014. Assets include cash, investments, pledges receivable, and other assets. The FY15 increase was primarily attributable to investments, which grew by \$94.2 million to \$2,169.6 million from \$2,075.4 million at June 30, 2014. In addition, other assets increased by \$43.1 million to \$60.7 million in FY15 from \$17.6 million in FY14 primarily due to \$43.9 million in proceeds receivable from investments sold in June 2015, but which did not settle until July 2015. Other assets include investment proceeds receivable and donor contributions in transit.

In FY14, assets increased \$336.9 million to \$2,548.3 million from \$2,211.4 million. This was principally due to an increase in investments, which grew by \$220.9 million, and pledges receivable, which increased by \$114.1 in FY14.

#### Liabilities

The UCLA Foundation's liabilities increased by \$9.6 million to \$279.3 million at June 30, 2015. These consist primarily of amounts held for others, annuities payable, and liabilities to life beneficiaries. Amounts held for others represent accounts belonging to affiliated entities who invest with The UCLA Foundation. These account balances grew as a result of positive investment returns and additional affiliated entity investments. In FY14, The UCLA Foundation's liabilities increased by \$18.7 million to \$269.7 million. These balances grew primarily as a result of positive investment returns slightly offset by withdrawals.

#### Operating and Nonoperating Revenues and Expenses

The condensed schedule of revenues, expenses and changes in net position summarize operating income (loss), nonoperating income (expenses) and private gifts of permanent endowments for fiscal years 2015, 2014 and 2013.

In 2015, The UCLA Foundation's contribution revenue decreased \$87.7 million partially due to a \$60 million bequest which was received by the Foundation in FY14 that was not repeated in FY15. The UCLA Foundation recorded operating expenses of \$239.4 million in FY15, an increase of \$5.7 million from 2014 or 2%. As a result of the drop in contribution revenue and the small increase in operating expenses, The UCLA Foundation recorded an operating loss of \$52.8 million in FY15.

## **THE UCLA FOUNDATION**

### Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

In 2014, The UCLA Foundation's contribution revenue increased \$21.2 million primarily as a result of the launch of a fund-raising effort called the Centennial Campaign intended to mark the 100th year anniversary of the founding of UCLA and the receipt of a large \$60 million bequest. The UCLA Foundation recorded operating expenses of \$233.7 million in FY14, a decrease of \$34.0 million from FY13. The primary reason for the decrease in expenditures in FY14 was related to a large donor advised fund which was given to The UCLA Foundation in March 2011. A condition of this gift required that The UCLA Foundation spend the majority of the funds within the first two years, which ended in fiscal year 2013. As a result of both the increased contribution revenue and decrease in operating expenses, The UCLA Foundation reported a net operating gain of \$40.5 million in FY14.

Nonoperating revenues and expenses include net investment income, change in fair value of investments, and adjustments to gift annuities and liabilities to life beneficiaries. Nonoperating revenues in FY15 decreased by \$99.3 million to \$104.4 million, a 49% decrease. This was the result of lower investment returns in FY15 on the endowed investment pool portfolio, 6.4% in FY15 versus 13.92% in FY14. Nonoperating revenues in 2014 rose by 2% over 2013 due to positive investment performance.

#### **Net Position**

Net position increased \$118.5 million in FY15, compared to an increase of \$318.2 million in FY14. In FY15 the increase was primarily due to positive investment returns. In FY14 the increase was due to both an increase in investment returns as well as increased gifts to The UCLA Foundation.

#### **Factors Impacting Future Periods**

Management is not aware of any factors that would have a significant impact on future periods other than investment market activity that will affect valuations of the investment portfolio.

**THE UCLA FOUNDATION**

Statements of Net Position

June 30, 2015 and 2014

(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets		
Cash	\$ 3,910	\$ 2,470
Short-term investments	286,046	278,144
Accounts and other receivables	50,726	7,091
Accrued investment income	433	323
Pledges receivable, net	<u>74,317</u>	<u>109,414</u>
Total current assets	<u>415,432</u>	<u>397,442</u>
Noncurrent assets		
Long-term investments	1,859,115	1,774,523
Investments in land and buildings	24,420	22,749
Accounts and other receivables	9,539	10,185
Pledges receivable, net	<u>369,336</u>	<u>343,413</u>
Total noncurrent assets	<u>2,262,410</u>	<u>2,150,870</u>
Total assets	<u><u>2,677,842</u></u>	<u><u>2,548,312</u></u>
<b>Liabilities</b>		
Current liabilities		
Accounts and grants payable	6,920	6,882
Annuities payable	2,406	2,629
Liabilities to life beneficiaries	2,249	2,499
Amounts held for others	<u>236,052</u>	<u>224,014</u>
Total current liabilities	<u>247,627</u>	<u>236,024</u>
Noncurrent liabilities		
Annuities payable	14,721	16,000
Liabilities to life beneficiaries	<u>16,920</u>	<u>17,646</u>
Total noncurrent liabilities	<u>31,641</u>	<u>33,646</u>
Total liabilities	<u>279,268</u>	<u>269,670</u>
<b>Deferred Inflow of Resources</b>		
Deferred inflow – gift receipt	<u>1,428</u>	<u>—</u>
Total deferred inflow of resources	<u>1,428</u>	<u>—</u>
<b>Net Position</b>		
Net position:		
Restricted for:		
Nonexpendable:		
Endowments	948,788	868,783
Annuity and life income funds	12,964	24,003
Expendable:		
Endowment earnings	255,720	237,750
Annuity and life income funds	17,254	17,332
Funds functioning as endowments	516,947	462,822
Gifts	573,268	572,431
Unrestricted	<u>72,205</u>	<u>95,521</u>
Total net position	<u>\$ 2,397,146</u>	<u>\$ 2,278,642</u>

See accompanying notes to financial statements.

**THE UCLA FOUNDATION**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Contributions	\$ 186,517	\$ 274,203
Total operating revenues	<u>186,517</u>	<u>274,203</u>
Operating expenses:		
Gift fund distributions	202,760	199,745
Gift administration fees	15,630	13,259
Endowment cost recovery	9,351	9,160
UCLA Chancellor's priorities	6,000	6,000
UCLA Investment expenses	4,864	4,465
General expenditures	752	873
UCLA Alumni Association	—	200
Total operating expenses	<u>239,357</u>	<u>233,702</u>
Operating (loss) income	<u>(52,840)</u>	<u>40,501</u>
Nonoperating revenues:		
Interest, dividends, distributions, and investment management fees, net	25,253	44,129
Realized and unrealized gains and losses on investments	75,640	158,213
Change in value of split interest agreements	3,470	1,368
Total nonoperating revenues, net	<u>104,363</u>	<u>203,710</u>
Income before other changes in net position	<u>51,523</u>	<u>244,211</u>
Other changes in net position:		
Private gifts of permanent endowments	<u>66,981</u>	<u>74,000</u>
Increase in net position	<u>118,504</u>	<u>318,211</u>
Net position:		
Beginning of year	<u>2,278,642</u>	<u>1,960,431</u>
End of year	<u>\$ 2,397,146</u>	<u>\$ 2,278,642</u>

See accompanying notes to financial statements.

**THE UCLA FOUNDATION**

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Contributions	\$ 187,402	\$ 146,990
Gift fund distributions and operating expenses	(239,690)	(232,249)
Beneficiary payments, net	<u>(2,552)</u>	<u>(3,601)</u>
Net cash used in operating activities	<u>(54,840)</u>	<u>(88,860)</u>
Cash flows from noncapital financing activities:		
Private gifts for endowment purposes	<u>38,028</u>	<u>62,714</u>
Net cash provided by noncapital financing activities	<u>38,028</u>	<u>62,714</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	458,509	272,730
Purchases of investments	(454,033)	(265,678)
Interest, dividends, distributions, and investment management fees, net	<u>13,776</u>	<u>19,515</u>
Net cash provided by investing activities	<u>18,252</u>	<u>26,567</u>
Net increase in cash	1,440	421
Cash:		
Beginning of year	<u>2,470</u>	<u>2,049</u>
End of year	<u>\$ 3,910</u>	<u>\$ 2,470</u>
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating (loss) income	\$ (52,840)	\$ 40,501
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Noncash gifts	(10,775)	(13,645)
Provision for uncollectible pledges receivable	(6,848)	13,385
Changes in operating assets and liabilities:		
Accounts and other receivables	1,479	(1,108)
Pledges receivable, net	16,022	(127,513)
Accounts and grants payable	(333)	1,453
Annuities payable	(2,109)	(1,435)
Liabilities to life beneficiaries	(864)	(498)
Deferred inflows	<u>1,428</u>	<u>—</u>
Net cash used in operating activities	<u>\$ (54,840)</u>	<u>\$ (88,860)</u>
Supplemental noncash activities information:		
Gifts of securities and real property – operating	\$ 10,775	\$ 13,645
Gifts of securities and real property – for endowment purposes	28,953	11,286
Reinvested dividends	11,213	24,445

See accompanying notes to financial statements.

## THE UCLA FOUNDATION

### Notes to Financial Statements

June 30, 2015 and 2014

#### (1) Organization

The UCLA Foundation (foundation), formerly the UCLA Progress Fund, Inc., was established in 1945. The primary purpose of The UCLA Foundation is to actively promote philanthropy and manage donated resources for the advancement of UCLA. In addition, The UCLA Foundation provides an efficient vehicle for accepting all types of private donations and gifts as an adjunct to money also raised for UCLA through The Regents of the University of California (the Regents). The UCLA Foundation is a component unit of the University of California.

The Foundation is governed by an independent Board of Trustees, the membership of which includes the Chancellor of UCLA. The Foundation was established solely to support the mission of UCLA. Upon dissolution, liquidation, or winding up of the Foundation, the assets remaining after payment, or provision for payment, of all debts and liabilities of the Foundation shall be distributed to the Regents for the benefit of UCLA, provided the Regents of the University have maintained tax-exempt status under the Internal Revenue Code and relevant California laws. Accordingly, the Foundation is considered a governmental not-for-profit organization, subject to reporting under the Governmental Accounting Standards Board (the GASB).

Under an agreement formalized on May 16, 1983, The UCLA Foundation transfers monies to UCLA to be spent in accordance with the donor's request. UCLA assumes responsibility for actual disbursement; therefore, The UCLA Foundation's net position does not include any monies held but not yet expended by UCLA.

In 2011, The UCLA Foundation's Board of Directors formed The UCLA Investment Company, a nonprofit organization, to assume oversight and management of the UCLA endowment and other assets under management by The UCLA Foundation. The UCLA Investment Company is led by the Chief Investment Officer of The UCLA Foundation. The UCLA Foundation appoints the 8-member board that governs the UCLA Investment Company. The UCLA Foundation Board Chair and UCLA Chief Financial Officer serve as Directors on the UCLA Investment Company Board. The UCLA Foundation controls The UCLA Investment Company by appointing all members of the board, and accordingly, The UCLA Investment Company is presented as a blended component unit within The UCLA Foundation's financial statements.

#### (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 include the accounts of The UCLA Foundation, The UCLA Foundation Trusts, The UCLA Foundation Pooled Income Fund, and The UCLA Investment Company (together, The UCLA Foundation). The 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. All intercompany balances and transactions have been eliminated.

## THE UCLA FOUNDATION

### Notes to Financial Statements

June 30, 2015 and 2014

**(b) Cash**

The UCLA Foundation manages its cash through a major banking institution. At June 30, 2015 and 2014, the carrying amount of The UCLA Foundation's general ledger cash held in a nationally recognized banking institution was approximately \$3.9 million and \$2.5 million, respectively. At June 30, 2015 and 2014, The UCLA Foundation had cash in the bank in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits of approximately \$2.7 million and \$1.3 million, respectively. To mitigate custodial credit risk, The UCLA Foundation conducts business with a fiscally sound bank with national recognition.

**(c) Investments**

Investments are reported at fair value. The basis of determining the fair value of investments is the readily determinable sales price or current exchange rate of the investments based on prices or quotations from actively traded markets, where available. Generally, mutual funds and pooled funds are valued at the net asset value (NAV) of the shares held. Alternative investments are valued at NAV as reported by the general partners and fund managers. NAV received by the general partners or fund managers is based on the fair value of the alternative investments' underlying assets in accordance with policies established by each general partner or fund manager. Management reviews and evaluates the valuation received from fund managers by comparing the valuations to expectations based on market performance. Management believes that NAV is a practical expedient to estimating fair value. As limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

**Endowed Investment Pool**

The UCLA Foundation's endowment and certain other balances are managed in a unitized investment pool called the Endowed Investment Pool (EIP). Other balances include affiliated entities who invest in the EIP and certain unrestricted funds. All EIP assets are classified as noncurrent regardless of maturity due to the long-term nature of the intended use of gifts or affiliated entity funds invested in this pool. Transactions within each individual account within the EIP pool are based on the unit market value at the end of the quarter during which the transaction takes place. The mission of the EIP is to support the educational mission of UCLA by providing a reliable source of funds for current and future use. The EIP has two primary goals. First, the purchasing power of the assets must be maintained in perpetuity, and second, the EIP must achieve investment returns sufficient to sustain the level of spending necessary to support ongoing UCLA operations.

The UCLA Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the state of California in January 2009. UPMIFA does not set specific expenditure limits; instead, a charity can spend the amount the charity deems prudent after considering the donor's intent that the endowment continue permanently, the purpose of the fund, and relevant economic factors. The UCLA Foundation's fiscal year 2015 spending rate is set at 4.78% of a 12-quarter rolling average market value. The spending rate for fiscal year 2014 was 5.00% of a 12-quarter rolling average market value, not to exceed \$1.53/unit. The Board of Directors of The UCLA Foundation reviews and

## **THE UCLA FOUNDATION**

### Notes to Financial Statements

June 30, 2015 and 2014

approves this rate annually. Payout is distributed to individual funds quarterly based on the number of units in each fund at the beginning of the quarter.

#### **Unendowed Investment Pool**

The UCLA Foundation maintains an Unendowed Investment Pool (UIP). This pool is primarily invested in the Regent's Short-term Investment Pool (Regent's STIP). All gifts intended for current expenditure as well as unspent endowed pool payout and affiliated entity short-term accounts are invested in the UIP. UIP investments are reported at fair value.

#### **Annuity and Life Income Funds**

The UCLA Foundation's Annuity and Life Income Funds consist of The UCLA Foundation Trusts, Pooled Income Fund, and Gift Annuity Fund. All trust investments are reported at fair value and classified as noncurrent regardless of maturity due to donor and/or time restrictions limiting The UCLA Foundation's ability to use these investments except for cash held to service immediate cash flow needs.

##### **The UCLA Foundation Trusts**

Trusts are established by donors to provide income, generally for life, to designated beneficiaries, except for a lead trust, which pays its income for a term of years to The UCLA Foundation.

Upon termination of each trust, its assets generally will be distributed to The UCLA Foundation, or individuals named by the donor in the case of the lead trust, for the purposes designated in the trust agreements. Each year, beneficiaries receive payments as specified in the trust agreement; a fixed payment (annuity trusts) or a percentage of the trust's fair market value (standard unitrust), which may be limited to the net income (net-income-with-make-up unitrusts).

The trusts are separate legal entities, created under the provisions of the Internal Revenue Code and applicable California law.

Each trust has a calendar year-end as required by the Internal Revenue Code. The charitable remainder trusts are exempt from federal and California income taxes, except in any year in which they receive unrelated business taxable income.

##### **Pooled Income Fund**

The UCLA Foundation serves as trustee of The UCLA Foundation Pooled Income Fund (the Pooled Fund). The Pooled Fund was created on June 8, 1983, under the provisions of Section 642 of the Internal Revenue Code, and received its first gift on November 1, 1985. The Pooled Fund has a calendar year-end as required by the Internal Revenue Code. The Pooled Fund is exempt from federal and California income taxes except on short-term capital gains and unrelated business taxable income.

Gifts to the Pooled Fund are commingled for investment and administration purposes. Each donor retains a life income interest in the Pooled Fund for one or more

## THE UCLA FOUNDATION

### Notes to Financial Statements

June 30, 2015 and 2014

beneficiaries. Each donor is assigned units of participation at the time of contribution. Income is distributed on a quarterly basis according to each beneficiary's units of participation. Upon termination of the life income interest, the donor's pro rata share of the Pooled Fund balance is distributed to The UCLA Foundation for purposes designated in the trust agreements.

#### **Gift Annuity Fund**

Gift annuities are planned giving vehicles, whereby donors gift assets in exchange for annuity payments over their lifetime or that of their beneficiaries. Assets contributed are separately invested and are used to fund payments to the annuitants. Annuities that mature are used to fulfill the purposes that were set forth in the original annuity agreement.

#### **(d) Land and Buildings**

The UCLA Foundation periodically receives real estate either as an outright gift or in accordance with a planned gift arrangement. These properties are recorded at fair value on the date of gift. At fiscal year-end, the fair values of land and buildings are updated based on recent market conditions. Fair value is based on the current sales price less estimated selling expenses for comparable properties.

#### **(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 if the pledge is verifiable, measurable, probable of collection, and meets all applicable eligibility requirements. 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 specific reserves for items that are past due in payments as well as a general reserve that is based on The UCLA Foundation's 3-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 expenditure, plus all pledges for endowment purposes, are recognized when the conditions are substantially met.

#### **(f) Donated Assets**

Securities and other nonmonetary items donated to The UCLA Foundation are recorded at fair value on the date of the gift. Fair values are updated as of the balance sheet date for any unsold donated assets. Fair value is based on the current sales price for comparable assets less estimated selling expenses.

#### **(g) Annuities Payable and Liabilities to Life Beneficiaries**

Annuities payable and liabilities to life beneficiaries represent gifts made to The UCLA Foundation in which a designated beneficiary retains an interest in the gift as specified in the trust agreement. The UCLA Foundation is the trustee for these trusts. For these funds, liability for

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beneficiary payments is established representing the present value of the estimated future beneficiary payments over the expected life of the life beneficiary. The liability is calculated using standard gift annuity tables and applicable IRS guidelines. The difference between the fair value of the trust assets and the liability for beneficiary payments is recorded as revenue.

For the year ended June 30, 2015 and 2014, liabilities for gift annuities and trusts are discounted based on the discount rate as of the date of the gifts, which ranged from 1% to 10.6%.

#### *(h) Amounts Held For Others*

Amounts held for others as of June 30, 2015 and 2014, of \$236.1 million and \$224.0 million, respectively, represent amounts held by The UCLA Foundation under agency relationships with various support groups and other affiliated entities of UCLA. Such amounts are not assets owned by or contributed to The UCLA Foundation and, accordingly, are recorded as liabilities and not as revenue. As of June 30, 2015, the offsetting assets are reported in investments and include \$34.2 million in the UIP, \$200.1 million in the EIP, and \$1.8 million in various annuity and life income funds. At June 30, 2014, \$26.6 million were invested in the UIP, \$195.6 million in the EIP, and \$1.8 million in various annuity and life income funds.

#### *(i) Deferred Inflows*

Deferred inflows include contributions received from donors that 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.

#### *(j) Net Position*

It is The UCLA Foundation's policy to use restricted resources when an expense is incurred for which both restricted and unrestricted resources are available. Net position comprises the following:

**Restricted – nonexpendable** includes permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing income and appreciation that may be expended or added to principal in accordance with the donor's wishes. Trust resources that are not expendable upon maturity are also classified as restricted nonexpendable net position.

**Restricted – expendable** relates to contributions designated by donors for use by particular entities or programs or for specific purposes or functions of UCLA. Included within restricted expendable net position are endowment earnings, funds functioning as endowments, and gifts.

*Endowment earnings* – Endowment earnings consist of income and change in fair market value of endowment investments and are classified as restricted-expendable net position unless otherwise specified by the donor.

*Annuity and life income funds* – Annuity and life income funds represent the trust resources that are expendable upon maturity.

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*Funds functioning as endowment* – Funds functioning as endowments are gifts that are restricted for a specific purpose by the donor, yet, unlike endowments, the corpus is not permanently restricted. However, it is management’s intent to invest these funds on a long-term basis for future use.

*Gifts* – Gifts are donations to The UCLA Foundation that are restricted by the donor for a specific purpose or pledges receivable net of discount and allowance.

**Unrestricted** is the net position of The UCLA Foundation that is not subject to donor-imposed restrictions, including donor-advised funds.

#### **(k) Classification of Revenues and Expenses**

Operating revenues include contributions from various donors and includes donor-advised fund donations. Operating expenses primarily include gift fund distributions, gift fund administration fees, endowed cost recovery, and a grant for the UCLA Chancellor’s priorities. Gift fund distributions are disbursements to UCLA in support of activities consistent with the donor’s wishes as well as donor-advised fund disbursements. The gift administration fee is a 6.5% fee charged to most gifts for the development and related program costs of The UCLA Foundation. The endowed cost recovery is an annual charge The UCLA Foundation incurs to partially defray the costs to operate an endowment. The UCLA Foundation funded a grant to the Chancellor in the amount of \$6 million in both fiscal year 2015 and 2014. These grants are reported as UCLA Chancellor’s priorities in the statement of changes and net position.

Nonoperating revenues and expenses primarily include interest, dividends and distributions, and net realized gains (losses) on the sale of investments and the change in unrealized appreciation (depreciation) in the fair value of investments held at the end of the period. Nonoperating expenses are presented net of external custody, consulting, and investment management fees.

Gifts for permanent endowment purposes are classified under other changes in net position and are new gifts received during the fiscal year for The UCLA Foundation’s endowment.

#### **(l) 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 could differ from those estimates.

#### **(m) Income Taxes**

The UCLA 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 UCLA Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which it is granted exemption. No income tax provision has been

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recorded as the net income, if any, from any unrelated trade or business, and in the opinion of management, is not material to the basic financial statements taken as a whole.

**(n) Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**(3) Investments**

The UCLA Foundation holds significant investments in the form of equity funds including domestic, international, and global. In addition, The UCLA Foundation invests in private equity funds, multistrategy funds, as well as credit, real asset, and real estate investment funds. The investment guidelines permit alternative investments primarily in partnerships where The UCLA Foundation is a limited partner relying upon the expertise of experienced general partners. All limited partnerships in which The UCLA Foundation invests are subject to annual audits. The investment guidelines also permit direct investments in equity or other instruments.

	<b>2015</b>	<b>2014</b>
	<i>(in thousands of dollars)</i>	
<b>Equity securities</b>		
Domestic	\$ 54,448	\$ 49,121
Foreign	15,080	13,777
Subtotal equity securities	69,528	62,898
<b>Fixed income securities</b>		
U.S. Government guaranteed:		
U.S. Treasury bills	173	1,275
U.S. Treasury notes	7,846	8,389
U.S. Treasury bonds	—	220
Subtotal U.S. Treasury	8,019	9,884
U.S. Government backed – asset-backed securities	1,016	632
Subtotal U.S. government guaranteed	9,035	10,516
Other U.S. dollar denominated:		
U.S. Agencies – asset-backed securities	14,307	12,608
Corporate – asset-backed securities	32,143	35,798
Corporate structured financial instruments	45	56
Supranational/foreign	2,550	—
Subtotal other U.S. dollar denominated	49,045	48,462

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	<b>2015</b>	<b>2014</b>
	<i>(in thousands of dollars)</i>	
Commingled funds and others:		
Commingled funds – absolute return and hedge funds	\$ 1,133,240	\$ 866,226
Commingled funds – balanced funds	5,327	5,015
Commingled funds – U.S. equity funds	144,276	228,965
Commingled funds – non-U.S. equity funds	10,855	107,150
Commingled funds – U.S. bond funds	15,706	17,626
Commingled funds – non-U.S. bond funds	2,822	3,493
Commingled funds – real estate investment trusts	7,396	9,694
Commingled funds – money market funds	289,222	283,565
Private equity	214,127	217,967
Real estate	95,119	93,696
Foreign currency contracts	122,690	—
Commodities	61	119,021
Other investments	1,132	1,122
Total investments	\$ 2,169,581	\$ 2,075,416

Investments are exposed to several risks, such as market, credit, foreign currency, and interest rate risks, that can affect the value of the investments. In order to manage the risks and the directionality of the portfolio, The UCLA Foundation investment policy allows for investing in swaps, derivatives, or other instruments. The UCLA Foundation entered into a total return swap with a financial institution for investment purposes on June 30, 2015. The total return swap is traded on the OTC market. Total return swap contracts involve the receipt of income on a referenced asset, plus any capital gains or losses over the payment period. The other party to the swap receives a specified fixed or floating cash flow unrelated to the credit worthiness of the referenced asset. The UCLA Foundation's total return swap contract is scheduled to terminate in 2016. The fair value of the total return swap, recorded at the swap contract's net equity value, is zero as of June 30, 2015. The UCLA Foundation did not hold any of these instruments at June 30, 2014.

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**(a) 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 security prices to decline. The credit portfolio is diversified across credit asset classes and holds a mixture of investment grade and high yield securities of performing and nonperforming debt. The portfolio will focus on capital appreciation rather than current income and will not be managed to specific duration guidelines. The credit risk profile of investments schedule summarizes the fair value of fixed income securities subject to credit risk.

	<b>2015</b>	<b>2014</b>
	<i>(in thousands of dollars)</i>	
<b>Fixed income securities</b>		
U.S. government guaranteed	\$ 9,035	\$ 10,516
<b>Other U.S. dollar denominated</b>		
AAA	350	419
AA	14,307	12,608
BBB	347	—
BB	1,180	—
B	1,436	1,151
CCC or below	26,691	29,404
Not rated	4,734	4,880
Total other U.S. dollar denominated	\$ 49,045	\$ 48,462
<b>Commingled funds</b>		
U.S. bond funds: Not rated	\$ 15,706	\$ 17,626
Non-U.S. bond funds: Not rated	2,822	3,493
Money market funds: Not rated	289,222	283,565
Total commingled funds	307,750	304,684
Total funds subject to credit risk	\$ 365,830	\$ 363,662

**(b) Concentration of Credit Risk**

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual shares. The UCLA Foundation's 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 nonperforming debt. Accordingly, there are no investments in any one issuer that represents 5% or more of total fixed income investments.

**(c) Custodial Risk**

Custodial risk is the risk that in the event of the failure of the custodian, the investments may not be returned. Substantially all of The UCLA Foundation's investments are issued, registered, or held in the name of The UCLA Foundation by its master custodian bank, as its agent. Other types

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of investments represent ownership interest that do not exist in physical or book-entry form. As a result, management believes that custodial risk is remote.

**(d) Interest Rate Risk**

Interest rate risk is the risk that fixed income securities will decline because of rising interest rates. The UCLA Foundation measures interest rate risk using the effective duration method. The portfolio will be diversified across credit strategies and hold a mixture of investment grade and high yield securities of performing and nonperforming debt. Liquidity and volatility will vary by strategy. The portfolio will focus on capital appreciation rather than current income and will not be managed to specific duration guidelines. The interest rate risk schedule summarizes the average effective duration of its fixed income investments.

	<b>2015</b>	<b>2014</b>
	<i>(effective duration in years)</i>	
Fixed income securities		
U.S. Government		
U.S. Treasury bills	0.1	0.2
U.S. Treasury notes	3.0	3.7
U.S. Treasury bonds	—	2.2
U.S. Government backed – asset backed securities	7.3	3.5
Other U.S. dollar denominated		
U.S. agencies – asset-backed securities	15.5	12.0
Corporate - asset-backed securities	1.3	0.9
Commingled funds		
U.S. bond funds	4.4	5.1
Non-U.S. bond funds	7.3	5.9
Money market funds	1.7	2.2
<b>Investments highly sensitive to changes in interest rates</b>		
<i>(in thousands of dollars)</i>		
Mortgage backed securities	\$ 21,427	\$ 19,699
Collateralized mortgage obligations	25,459	29,338
Other asset-backed securities (credit card, auto loans, etc.)	580	—

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**(e) Foreign Currency Risk**

Foreign currency risk results from investments in foreign-currency-denominated equity or fixed income investments. The UCLA Foundation may utilize swaps, derivatives, exchange-traded funds, or other instruments in order to manage the risk. The UCLA Foundation holds equity and other investments denominated in foreign currency that are summarized at fair value on the following foreign currency risk schedule.

	<b>2015</b>	<b>2014</b>
	<i>(in thousands of dollars)</i>	
<b>Equity securities</b>		
Miscellaneous	\$ 945	\$ 969
South Korean Won	14,135	12,808
Swiss Franc	—	—
Total exposure to foreign currency risk	\$ 15,080	\$ 13,777
<b>Commingled funds</b>		
Various currency denominations		
Balanced funds	\$ 1,274	\$ 1,317
Non-U.S. equity	10,666	106,369
U.S. bond	2,489	2,896
Real estate investment trusts	2,794	3,610

**(4) Approved Endowment Payout**

The approved endowment payout allocated to donor-restricted endowment funds comprised the following at June 30:

	<b>2015</b>	<b>2014</b>
	<i>(in thousands of dollars)</i>	
Investment income, net	\$ 19,824	\$ 36,751
Net accumulated gains and corpus	48,554	25,589
	\$ 68,378	\$ 62,340

In addition to the above, The UCLA Foundation payout allocated to affiliated entities and unrestricted funds of \$11 million in fiscal year 2015 and \$12 million in fiscal year 2014, bringing the total endowed investment pool approved payout allocation to \$79.4 million in fiscal 2015 and \$74.3 million in fiscal year 2014.

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**(5) Pledges Receivable**

Pledges receivable are unconditional promises to pay a certain amount and consist of the following at June 30:

	<b>2015</b>	<b>2014</b>
	<i>(in thousands of dollars)</i>	
Pledges receivable	\$ 559,772	\$ 551,803
Less:		
Allowance for uncollectible pledges	(28,004)	(46,063)
Discount for future payments	(88,115)	(52,913)
Pledges receivable, net	\$ 443,653	\$ 452,827
Current pledges receivable, net	\$ 74,317	\$ 109,414
Non-current pledges receivable, net	369,336	343,413
	\$ 443,653	\$ 452,827

Management evaluates the collectibility of its receivables and records an allowance for estimated uncollectible amounts. The UCLA Foundation recorded a loss provision reversal for uncollectible pledges of \$6.8 million in fiscal year 2015 and a loss provision expense of \$13.4 million in fiscal year 2014. Both the loss provision reversal and expense are recorded as adjustments to contribution revenue. Pledges due beyond one year have been discounted at an annual rate of 1.2% for pledges received in fiscal year 2015 and 1.45% for pledges received in fiscal year 2014. Fifty-eight percent of the pledges receivable, net of discount, are from five donors in fiscal 2015 as compared to sixty-eight percent in fiscal year 2014.

**(6) Commitments**

As of June 30, 2015, The UCLA Foundation has contractual commitments to invest an additional \$200.7 million in various limited partnerships.

**(7) Related Parties**

The UCLA Foundation supports UCLA and has the following organizational relationship with the University:

**(a) Administrative Costs**

The UCLA Foundation has a Board of Directors and designated officers; however, The UCLA Foundation does not have any employees. All functions and activities are conducted by employees of UCLA. UCLA employees serving Foundation functions are covered by the Regents' pension plan and post-retirement healthcare plan.

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

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**(b) *Gift and Endowed Cost Recovery Fees***

In accordance with relevant UCLA policies, gift and endowed cost recovery fees are paid by The UCLA Foundation to UCLA. Both fees are designed to reimburse the university for the administration costs discussed above. The standard gift fee is computed as 6.5% of the gift amount. In FY14, the endowed cost recovery fee was calculated as 65 basis points of the beginning fair value of The UCLA Foundation's portion of the EIP. In FY15, the cost recovery fee formula was changed. It is calculated as equal to the prior year's fee, adjusted for inflation (2%). The gift and endowed cost recovery fees are included in operating expenses in the accompanying financial statements and totaled \$15.6 million and \$9.4 million in 2015 and \$13.3 million and \$9.2 million in 2014, respectively.

**(c) *Grants to campus***

The primary purpose of The UCLA Foundation is to raise funds in support of UCLA. In FY15, The UCLA Foundation issued grants to UCLA in the amount of \$203.4 million and \$199.5 million in FY14. These amounts are included in operating expenses under gift fund distributions and the UCLA Chancellor's priorities.

**(d) *Interest on Short-term Investments***

Interest on short-term investments per UCLA policy is either credited to the benefitting fund or considered an unrestricted revenue source for the general fund of the UCLA Foundation. It is used to fund operating expenses of The UCLA Foundation and to make grants to UCLA.