

THE UCLA FOUNDATION

Financial Statements

June 30, 2016 and 2015

(With Independent Auditor's Report Thereon)

THE UCLA FOUNDATION

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Report of Independent Auditors

To the Board of Directors of

The UCLA Foundation

We have audited the accompanying financial statements of The UCLA Foundation (the "Foundation"), a component unit of the University of California, which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the 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 the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note 2 to the financial statements, the Foundation changed the manner in which it presents certain fair value hierarchy disclosures related to investments in fiscal 2016. Our opinion is not modified with respect to this matter.

Other Matters

2015 Financial Statements

The financial statements of the Foundation as of June 30, 2015 and for the year then ended, prior to the retrospective application of the change in presentation of certain fair value hierarchy disclosures related to investments, as described in Note 2, were audited by other auditors whose report dated October 5, 2015 expressed an unmodified opinion on those statements.

We also have audited the adjustments to retrospectively apply the change in presentation of certain fair value hierarchy disclosures related to investments, as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the Foundation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements taken as a whole.

Required Supplementary Information

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

A handwritten signature in cursive script, appearing to read "PricewaterhouseCoopers LLP".

Los Angeles, California
September 30, 2016

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Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

The UCLA Foundation, formerly the UCLA Progress Fund, Inc., was established in 1945. The purpose of The UCLA Foundation is to encourage financial support for the University of California, Los Angeles (UCLA) through private gifts. The UCLA Foundation provides an efficient vehicle for accepting private donations and gifts as an adjunct to money 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 financial activities for the fiscal year ended June 30, 2016 (FY16), with selected comparative information for the fiscal year ended June 30, 2015 (FY15), and the fiscal year ended June 30, 2014 (FY14). 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 non-financial 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 non-operating. Operating revenues include current use (non-endowed) gifts to The UCLA Foundation and operating expenses include gift fund distributions such as grants to the campus. Investment results are reported as non-operating 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 and it helps users assess an entity's ability to generate cash flows.

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Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015
Condensed Financial Information
(in thousands of dollars)

	2016	FY 2016-2015 change percentage	2015	FY 2015-2014 change percentage	2014
Assets					
Cash	\$ 4,794	23%	\$ 3,910	58%	\$ 2,470
Investments					
Short-term investments	299,346	5%	286,046	3%	278,144
Long-term investments	1,862,426	-1%	1,883,535	5%	1,797,272
Total investments	<u>2,161,772</u>	0%	<u>2,169,581</u>	5%	<u>2,075,416</u>
Pledges receivable, net	464,924	5%	443,653	-2%	452,827
Other assets	41,773	-31%	60,698	245%	17,599
Total assets	<u>2,673,263</u>	0%	<u>2,677,842</u>	5%	<u>2,548,312</u>
Liabilities					
Current liabilities	254,271	3%	247,627	5%	236,024
Non-current liabilities	29,430	-7%	31,641	-6%	33,646
Total liabilities	<u>283,701</u>	2%	<u>279,268</u>	4%	<u>269,670</u>
Deferred inflow of resources					
Deferred inflow - gift receipts	1,460	2%	1,428		-
Total deferred inflow of resources	<u>1,460</u>	2%	<u>1,428</u>		<u>-</u>
Net position					
Restricted net position	2,329,702	0%	2,324,941	6%	2,183,121
Unrestricted net position	58,400	-19%	72,205	-24%	95,521
Total net position	<u>\$ 2,388,102</u>	0%	<u>\$ 2,397,146</u>	5%	<u>\$ 2,278,642</u>
Revenues and expenses					
Operating revenues					
Contribution revenues	\$ 235,119	26%	\$ 186,517	-32%	\$ 274,203
Total operating revenues	<u>235,119</u>	26%	<u>186,517</u>	-32%	<u>274,203</u>
Operating expenses					
Gift fund distributions	224,358	7%	208,760	1%	205,945
Management and general expenses	27,796	-9%	30,597	10%	27,757
Total operating expenses	<u>252,154</u>	5%	<u>239,357</u>	2%	<u>233,702</u>
Operating (loss) income	<u>(17,035)</u>	-68%	<u>(52,840)</u>	-230%	<u>40,501</u>
Non-operating revenues					
Realized gains (losses) and change in fair value of investments, net	(77,029)	-202%	75,640	-52%	158,213
Other non-operating revenues	14,882	-48%	28,723	-37%	45,497
Total non-operating (expenses) revenues, net	<u>(62,147)</u>	-160%	<u>104,363</u>	-49%	<u>203,710</u>
Private gifts of permanent endowments					
	70,138	5%	66,981	-9%	74,000
Change in net position	<u>\$ (9,044)</u>	-108%	<u>\$ 118,504</u>	-63%	<u>\$ 318,211</u>

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Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Financial Highlights

In FY16, The UCLA Foundation's total assets decreased less than 1% or \$4.5 million to \$2,673.3 million at June 30, 2016, from \$2,677.8 million at June 30, 2015. This decrease was due to negative investment returns in the endowed investment pool (EIP) of 4.1% offset by an increase in contribution revenue. FY15 total assets increased 5% or \$129.5 million over FY14 primarily due to positive EIP investment returns of 6.4%.

Gifts to The UCLA Foundation increased \$51.8 million in FY16 to \$305.3 million, up from \$253.5 million in FY15, a 20% increase. In FY15, total gifts to The UCLA Foundation decreased \$94.7 million from \$348.2 million in FY14 to \$253.5 million, a 27% decrease. Please see the *Operating and Non-operating Revenues and Expenses* section below for further details.

Assets

In FY16, assets decreased less than 1% or \$4.5 million to \$2,673.3 million from \$2,677.8 million at June 30 2015. Assets include cash, investments, pledges receivable, and other assets. Other assets include investment proceeds receivable and donor contributions in transit. Proceeds receivable represent amounts due for investments sold in June of one fiscal year, but which do not settle until July of the following fiscal year. Proceeds receivable at June 30, 2016 were \$26.6 million versus \$44.2 million as of June 30, 2015, a drop of \$17.6 million or 40%. In addition, investments declined by \$7.8 million from \$2,169.6 million as of June 30, 2015 to \$2,161.8 million at June 30, 2016 due to negative investment returns offset by new gifts to the endowment. Both of these decreases were partially offset by an increase in pledges receivable of \$21.3 million or 5%.

In FY15, assets increased \$129.5 million or 5% to \$2,677.8 million from \$2,548.3 million at June 30, 2014. This was principally driven by an increase in investments of \$94.2 million from positive investment returns. In addition, investment proceeds receivable grew to \$44.2 million from \$.3 million, an increase of \$43.9 million in FY15 over FY14. These were both slightly offset by a decrease in pledges receivable of \$9.2 million or 2%.

Liabilities

In FY16, The UCLA Foundation's total liabilities increased by \$4.4 million to \$283.7 million from \$279.3 million at June 30, 2015. Liabilities 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 by \$8.0 million as a result of additional affiliated entity investments somewhat offset by investment losses. In FY15, the UCLA Foundation's liabilities increased by \$9.6 million to \$279.3 million at June 30, 2015. These balances grew as a result of investment gains and additional affiliated entity investments.

Operating and Non-operating Revenues and Expenses

The condensed schedules of revenues, expenses and changes in net position summarize operating income (loss), non-operating income (expenses) and private gifts of permanent endowments for FY16, FY15 and FY14.

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Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

In FY16, The UCLA Foundation's contribution revenue increased \$48.6 million to \$235.1 million from \$186.5 million in FY15, a 26% increase. This was primarily due to a \$40 million pledge for building construction recorded by the Foundation in FY16, which, while received during FY15, had not yet been approved by the Board of Regents. The UCLA Foundation recorded operating expenses of \$252.2 million in FY16, an increase of \$12.8 million from FY15 or 5%. This was driven by an increase in gift fund distributions benefiting the UCLA campus. As a result of the increase in contribution revenue and only small increase in operating expenses, The UCLA Foundation recorded an operating loss of \$17 million in FY16, a 68% decrease from FY15.

In FY15, 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 FY14 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.

Non-operating revenues and expenses include net investment income, realized gains and losses on investments, change in fair value of investments, and adjustments to gift annuities and liabilities to life beneficiaries. Non-operating losses in FY16 totaled \$62.1 million as compared to non-operating revenue of \$104.4 million in FY15. Non-operating revenues in FY15 fell by \$99.3 million or 49% from FY14. The FY16 decrease was due to investment losses of 4.1% on the EIP while the FY15 decrease was due a 6.4% investment return versus 13.9% in FY14 on the EIP.

Net Position

In FY16, net position decreased by \$9 million as compared to an increase of \$118.5 million in FY15. This was primarily a result of negative investment performance in FY16, somewhat offset by an increase in contribution revenue. Net position increased by \$118.5 million in FY15, compared to an increase of \$318.2 million in FY14. In FY15, the increase was primarily due to positive EIP investment returns of 6.4% in FY15 versus an EIP investment performance of 13.9% in FY14.

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.

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Statements of Net Position

June 30, 2016 and 2015

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Assets		
Current assets		
Cash	\$ 4,794	\$ 3,910
Short-term investments	299,346	286,046
Accounts and other receivables	32,085	50,726
Accrued investment income	361	433
Pledges receivable, net	94,805	74,317
Total current assets	<u>431,391</u>	<u>415,432</u>
Non-current assets		
Long-term investments	1,835,937	1,859,115
Investments in land and buildings	26,489	24,420
Accounts and other receivables	9,327	9,539
Pledges receivable, net	370,119	369,336
Total non-current assets	<u>2,241,872</u>	<u>2,262,410</u>
Total assets	<u>\$ 2,673,263</u>	<u>\$ 2,677,842</u>
Liabilities		
Current liabilities		
Accounts and grants payable	6,382	6,920
Annuities payable	2,126	2,406
Liabilities to life beneficiaries	1,726	2,249
Amounts held for others	244,037	236,052
Total current liabilities	<u>254,271</u>	<u>247,627</u>
Non-current liabilities		
Annuities payable	14,570	14,721
Liabilities to life beneficiaries	14,860	16,920
Total non-current liabilities	<u>29,430</u>	<u>31,641</u>
Total liabilities	<u>\$ 283,701</u>	<u>\$ 279,268</u>
Deferred Inflow of Resources		
Deferred inflow - gift receipts	\$ 1,460	\$ 1,428
Total deferred inflow of resources	<u>\$ 1,460</u>	<u>\$ 1,428</u>

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Statements of Net Position (Continued)

June 30, 2016 and 2015

(in thousands of dollars)

Net Position	<u>2016</u>	<u>2015</u>
Net Position:		
Restricted for:		
Non-expendable:		
Endowments	\$ 1,000,954	\$ 948,788
Annuity and life income funds	10,134	12,964
Expendable:		
Endowment earnings	179,884	255,720
Annuity and life income funds	18,638	17,254
Funds functioning as endowments	493,977	516,947
Gifts	626,115	573,268
Unrestricted	<u>58,400</u>	<u>72,205</u>
Total net position	<u><u>\$ 2,388,102</u></u>	<u><u>\$ 2,397,146</u></u>

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

(in thousands of dollars)

	2016	2015
Operating revenues:		
Contributions	\$ 235,119	\$ 186,517
Total operating revenues	235,119	186,517
Operating expenses:		
Gift fund distributions	218,358	202,760
Gift administration fees	13,704	15,630
Endowment cost recovery	9,362	9,351
UCLA Chancellor's priorities	6,000	6,000
UCLA Investment Company Management Fees	3,893	4,864
General expenditures	837	752
Total operating expenses	252,154	239,357
Operating loss	(17,035)	(52,840)
Non-operating revenues and expenses:		
Interest, dividends and distributions, net	14,077	25,253
Realized gains (losses) and change in fair value of investments, net	(77,029)	75,640
Change in value of split interest agreements	805	3,470
Total non-operating revenues (expenses), net	(62,147)	104,363
Income (loss) before other changes in net position	(79,182)	51,523
Other changes in net position:		
Private gifts of permanent endowments	70,138	66,981
Increase (decrease) in net position	(9,044)	118,504
Net position:		
Beginning of year	2,397,146	2,278,642
End of year	\$ 2,388,102	\$ 2,397,146

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Statements of Cash Flows

Years ended June 30, 2016 and 2015

(in thousands of dollars)

	2016	2015
Cash flows from operating activities:		
Contributions	\$ 192,922	\$ 187,402
Gift fund distributions and operating expenses	(252,645)	(239,690)
Beneficiary payments, net	(2,302)	(2,552)
Net cash used in operating activities	(62,025)	(54,840)
Cash flows from non-capital financing activities:		
Private gifts for endowment purposes	59,081	38,028
Net cash provided by non-capital financing activities	59,081	38,028
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	371,866	458,509
Purchases of investments	(381,818)	(454,033)
Interest, dividends and distributions, net	13,780	13,776
Net cash provided by investing activities	3,828	18,252
Net increase in cash	884	1,440
Cash:		
Beginning of year	3,910	2,470
End of year	\$ 4,794	\$ 3,910
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (17,035)	\$ (52,840)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Non-cash gifts	(20,687)	(10,775)
Provision for uncollectible pledges receivable	(1,215)	(6,848)
Changes in operating assets and liabilities:		
Accounts and other receivables	749	1,479
Pledges receivable, net	(20,056)	16,022
Accounts and grants payable	(491)	(333)
Annuities payable	(1,423)	(2,109)
Liabilities to life beneficiaries	(1,899)	(864)
Deferred inflows	32	1,428
Net cash used in operating activities	\$ (62,025)	\$ (54,840)
Supplemental non-cash activities information:		
Gifts of securities and real property – operating	\$ 20,687	\$ 10,775
Gifts of securities and real property – for endowment purposes	11,057	28,953
Reinvested dividends	842	11,213

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Notes to Financial Statements

June 30, 2016 and 2015

(1) Organization

The UCLA Foundation, formerly the UCLA Progress Fund, Inc., was established in 1945. The purpose of The UCLA Foundation is to encourage financial support for the University of California, Los Angeles (UCLA) through private gifts. In addition, The UCLA Foundation provides a vehicle for accepting all types of private donations and gifts as an adjunct to money raised for UCLA through The Regents of the University of California. The UCLA Foundation is a component unit of the University of California.

The Foundation is governed by an independent Board of Directors, 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 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.

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Notes to Financial Statements

June 30, 2016 and 2015

(b) *Recently Adopted New Accounting Pronouncement*

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for The UCLA Foundation's fiscal year beginning July 1, 2015. This Statement establishes standards for accounting and financial reporting for fair value measurements. The Statement requires investments to be measured at fair value and permits the use of net asset value as the fair value of the shares held when an investment does not have a readily determinable fair value. Fair value is defined 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. Statement No. 72 also requires certain disclosures related to all fair value measurements.

(c) *Cash*

The UCLA Foundation manages its cash through major banking institutions. At June 30, 2016 and 2015, the carrying amount of The UCLA Foundation's general ledger cash held in nationally recognized banking institutions was approximately \$4.8 million and \$3.9 million, respectively. At June 30, 2016 and 2015, The UCLA Foundation had cash in these banks in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits of approximately \$2.8 million and \$2.7 million, respectively. To mitigate custodial credit risk, The UCLA Foundation conducts business with fiscally sound banks with national recognition.

(d) *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 reported 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 valuations 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 non-current 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

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Notes to Financial Statements

June 30, 2016 and 2015

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 2016 spending rate is set at 4.54% of a 12-quarter rolling average market value while the spending rate for fiscal year 2015 was 4.78%. The Board of Directors of The UCLA Foundation reviews and 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 non-current 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.

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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 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.

(e) 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 the gift. At fiscal year-end, the fair values of land and buildings are updated based on recent market conditions and is based on the current sales price for comparable properties.

(f) 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

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well as a general reserve which 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.

(g) *Donated Assets*

Securities and other non-monetary 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.

(h) *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 or gift agreement. For these funds, liability for 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, 2016 and 2015, 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%.

(i) *Amounts Held For Others*

Amounts held for others as of June 30, 2016 and 2015, of \$244.0 million and \$236.1 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, 2016, the offsetting assets are reported in investments and include \$35.2 million in the UIP, \$207.1 million in the EIP, and \$1.7 million in various annuity and life income funds. At June 30, 2015, \$34.2 million were invested in the UIP, \$200.1 million in the EIP, and \$1.8 million in various annuity and life income funds.

(j) *Deferred Inflows*

Deferred inflows 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.

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(k) Net Position

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

Restricted – non-expendable 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 non-expendable 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.

Funds functioning as endowment – Funds functioning as endowments are gifts which 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.

(l) 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 years 2016 and 2015. These grants are reported as UCLA Chancellor's priorities in the Statements of Revenue, Expenses, and Changes in Net Position.

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Non-operating revenues and expenses primarily include interest, dividends, distributions, and net realized gains (losses) on the sale of investments as well as the change in fair value of investments held at the end of the period. Non-operating expenses are presented net of external custody 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.

(m) 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.

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

(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, multi-strategy 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.

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	2016	2015
	<i>(in thousands of dollars)</i>	
Equity securities		
Domestic	\$ 55,069	\$ 54,448
Foreign	15,497	15,080
Subtotal equity securities	70,566	69,528
Fixed income securities		
U.S. Government guaranteed		
U.S. Treasury bills	508	173
U.S. Treasury notes	7,140	7,846
Subtotal U.S. Treasury	7,648	8,019
U.S. Government backed – asset-backed securities	1,202	1,016
Subtotal U.S. government guaranteed	8,850	9,035
Other U.S. dollar denominated		
U.S. Agencies – asset-backed securities	15,585	14,307
Corporate – asset-backed securities	33,002	32,143
Corporate structured financial instruments	24	45
Supranational/foreign	2,878	2,550
Subtotal Other U.S. dollar denominated	51,489	49,045
Commingled funds and others		
Commingled funds – absolute return and hedge funds	1,075,512	1,133,240
Commingled funds – balanced funds	5,090	5,327
Commingled funds – U.S. equity funds	15,239	144,276
Commingled funds – non-U.S. equity funds	9,038	10,855
Commingled funds – U.S. bond funds	12,831	15,706
Commingled funds – non-U.S. bond funds	2,416	2,822
Commingled funds – real estate investment trusts	6,432	7,396
Commingled funds – money market funds	452,377	289,222
Commingled funds – private equity	210,865	214,127
Subtotal commingled funds	1,789,800	1,822,971
Investment derivatives	2,529	-
Real estate	90,568	95,119
Commodities and other investments	147,970	123,883
Total investments	\$ 2,161,772	\$ 2,169,581

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Investments are exposed to several risks, such as market, credit, foreign currency, and interest rate risks, which 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 derivatives or other instruments. The UCLA Foundation entered into total return swaps with financial institutions for investment purposes. The total return swaps are traded on the over the counter 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 contracts are scheduled to terminate in 2017. The following table provides information on the fair value of the total return swap and the changes in the fair value during the reporting period.

Notional Amount		Fair Value			Changes in Fair Value		
2016	2015	Classification	2016	2015	Classification	2016	2015
<i>(in thousands of dollars)</i>							
\$ 179,812	\$ 25,001	Long-term investments	\$ 2,529	\$ -	Non-operating revenues	\$ 2,529	\$ -

(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. 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 credit risk profile of investments schedule summarizes the fair value of fixed income securities subject to credit risk.

	2016	2015
	<i>(in thousands of dollars)</i>	
Fixed or variable income securities		
U.S. government guaranteed	\$ 8,850	\$ 9,035
Other U.S. dollar denominated		
AAA	273	350
AA	-	14,307
BBB	711	347
BB	597	1,180
B	2,814	1,436
CCC or below	24,023	26,691
Not rated	23,071	4,734
Total other U.S. dollar denominated	51,489	49,045
Commingled funds		
U.S. bond funds: Not rated	12,831	15,706
Non-U.S. bond funds: Not rated	2,416	2,822
Money market funds: Not rated	452,377	289,222
Total commingled funds	467,624	307,750
Investment derivatives		
Not rated	2,529	-
Total investment derivatives	2,529	-
Total funds subject to credit risk	\$ 530,492	\$ 365,830

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(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 non-performing 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. Many of The UCLA Foundation's investments represent ownership interest that do not exist in physical or book-entry form. Other investments are issued, registered, or held in the name of The UCLA Foundation by its master custodian bank, as its agent. Certain private securities were purchased in FY16 that are held via transfer agents. 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 non-performing 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.

	2016	2015
	<i>(effective duration in years)</i>	
Fixed or variable income securities		
U.S. Government		
U.S. Treasury bills	0.2	0.1
U.S. Treasury notes	2.6	3.0
U.S. Government backed – asset backed securities	4.3	7.3
Other U.S. dollar denominated		
U.S. agencies – asset-backed securities	9.8	15.5
Corporate - asset-backed securities	0.1	1.3
Supranational/foreign	6.8	
Commingled funds:		
U.S. bond funds	5.3	4.4
Non-U.S. bond funds	7.8	7.3
Money market funds	1.3	1.7
 Investments highly sensitive to changes in interest rates		
<i>(in thousands of dollars)</i>		
Mortgage backed securities	\$ 23,441	\$ 21,427
Collateralized mortgage obligations	23,770	25,459
Other asset-backed securities	2,578	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 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.

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of dollars)</i>	
Equity securities		
South Korean Won	\$ 14,140	\$ 14,135
Miscellaneous	1,357	945
Total exposure to foreign currency risk	<u>\$ 15,497</u>	<u>\$ 15,080</u>
Commingled funds		
Various currency denominations		
Balanced funds	\$ 1,429	\$ 1,274
Non-U.S. equity and U.S. equity	8,521	10,666
U.S. bond	864	2,489
Real estate investment trusts	2,311	2,794
Total commingled funds	<u>\$ 13,125</u>	<u>\$ 17,223</u>
Total funds subject to foreign currency risk	<u>\$ 28,622</u>	<u>\$ 32,303</u>

(4) Fair Value

Fair value is defined in the 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 1 investments include exchange traded funds, mutual funds, and other publicly traded securities.

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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. Level 2 investments include fixed- or variable-income securities, certain derivatives and other assets that are valued using market information.

Level 3 – Investments 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 are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include investments in privately held companies and real estate. The UCLA Foundation uses a combination of the market and income approaches to fair value these privately held companies. Real estate is fair valued using the market approach to valuation.

Not Leveled – Insurance policies where The UCLA Foundation is beneficiary are not measured at fair value, instead, these are recorded at cash surrender value.

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. Investments measured at NAV include hedge funds, private equity investments, and commingled funds. In addition, the Foundation's investments include investments in certain pools managed by the University of California (principally the STIP as discussed in Note 2). The University of California investment pools transact at share or net asset value as determined by the University of California based upon the underlying fair values of the pooled investments. Additional information on the UC investment pools can be obtained from the 2016 Annual Financial Report of the University of California.

The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2016, and June 30, 2015:

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As of 6/30/2016

(in thousands of dollars)

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Not Leveled	Total
Equity securities	62,962		7,604			70,566
Fixed or variable income securities						
U.S. government guaranteed		8,850				8,850
Other U.S. dollar denominated		51,465	24			51,489
Commingled funds	52,718			1,737,082		1,789,800
Investment derivatives		2,529				2,529
Real Estate			26,489	64,079		90,568
Commodities and other investments	25		37,433	109,389	1,123	147,970
Total investments	115,705	62,844	71,550	1,910,550	1,123	2,161,772

As of 6/30/2015

(in thousands of dollars)

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Not Leveled	Total
Equity securities	68,319		1,209			69,528
Fixed or variable income securities						
U.S. government guaranteed		9,035				9,035
Other U.S. dollar denominated		49,000	45			49,045
Commingled funds	227,646			1,595,325		1,822,971
Investment derivatives						
Real Estate			24,420	70,699		95,119
Commodities and other investments	80		29,437	93,315	1,051	123,883
Total investments	296,045	58,035	55,111	1,759,339	1,051	2,169,581

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, 2016, and June 30, 2015.

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As of 6/30/2016

(In thousands of dollars)

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms
Commingled funds - absolute return and hedge funds	US and non-US investments in absolute return, distressed securities, long-only, long/short, and developed and emerging markets	\$ 1,075,512	\$ -	Funds will be liquidated as determined by the CIO.	Ranges between monthly, quarterly, semi-annually, and annual redemptions with notice periods ranging between 30, 45, 60, 65, 75, 90, and 180 days.	Approximately 22% of NAV is locked up for 6 months. 42% of NAV is locked up for 1 year and the remaining is locked up for more than 1 year.
Commingled funds - balanced funds	Investments in external commingled funds that have an asset allocation to equity securities, alternative investments and fixed income instruments	5,037	-	Not Applicable	Requires 10 days written notice per quasi-withdrawal policy	Not Applicable
Commingled funds - money market funds	High quality money market and fixed income instruments with the objective to maximize returns consistent with safety of principal, liquidity, and cash flow requirements	445,668	-	Not Applicable	Daily	Not Applicable
Commingled funds - private equity	Investments in private equity funds that invest both domestically and internationally across venture capital, buyouts, high yields and subordinated debt	210,865	142,115	Approximately 14 years remaining	Redemptions are not permitted during the life of the fund	Not Applicable
Real estate	US and non-US real estate investment funds	64,079	30,209	Approximately 11 years remaining	Redemptions are not permitted during the life of the fund	Not Applicable
Commodities and other investments	Investment in funds comprised of oil and gas, commodities, and timber	109,389	12,900	Approximately 9 years remaining	Redemptions are not permitted during the life of the fund	Not Applicable
Total		\$ 1,910,550	\$ 185,224			

In addition to the above, The UCLA Foundation has unfunded commitments of \$12.6 million related investments that are classified as level 3. Therefore, as of June 30, 2016, The UCLA Foundation has contractual commitments to invest an additional \$197.9 million in various limited partnerships.

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As of 6/30/2015

(In thousands of dollars)

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms
Commingled funds - absolute return and hedge funds	US and non-US investments in absolute return, distressed securities, long-only, long/short, and developed and emerging markets	\$ 1,094,495	\$ -	Funds will be liquidated as determined by the CIO.	Ranges between monthly, quarterly, semi-annually, and annual redemptions with notice periods ranging between 30, 45, 60, 65, 75, 90, and 180 days.	Approximately 24% of NAV is locked up for 3 months, 24% is locked up for 6 months, 26% of NAV is locked up for 1 year and the remaining is locked up for more than 1 year.
Commingled funds - balanced funds	Investments in external commingled funds that have an asset allocation to equity securities, alternative investments and fixed income instruments	5,264	-	Not Applicable	Requires 10 days written notice per quasi-withdrawal policy	Not Applicable
Commingled funds - money market funds	High quality money market and fixed income instruments with the objective to maximize returns consistent with safety of principal, liquidity, and cash flow requirements	281,439	-	Not Applicable	Daily	Not Applicable
Commingled funds - private equity	Investments in private equity funds that invest both domestically and internationally across venture capital, buyouts, high yields and subordinated debt	214,127	142,169	Approximately 10 years remaining	Redemptions are not permitted during the life of the fund	Not Applicable
Real estate	US and non-US real estate investment funds	70,699	10,352	Approximately 7 years remaining	Redemptions are not permitted during the life of the fund	Not Applicable
Commodities and other investments	Investment in funds comprised of oil and gas, commodities, and timber	93,315	39,835	Approximately 10 years remaining	Redemptions are not permitted during the life of the fund	Not Applicable
Total		\$ 1,759,339	\$ 192,356			

In addition to the above, The UCLA Foundation has unfunded commitments of \$8.3 million related investments that are classified as level 3. Therefore, as of June 30, 2015, The UCLA Foundation has contractual commitments to invest an additional \$200.7 million in various limited partnerships.

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(5) Approved Endowment Payout

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of dollars)</i>	
Investment income, net	\$ 9,789	\$ 19,824
Net accumulated gains and corpus	62,448	48,554
	<u>\$ 72,237</u>	<u>\$ 68,378</u>

In addition to the above, The UCLA Foundation allocated payout to affiliated entities and unrestricted funds of \$11 million in both fiscal years 2016 and 2015, bringing the total endowed investment pool approved payout to \$83.2 in fiscal 2016 and \$79.4 million in fiscal year 2015.

(6) External Investment Pool

The EIP is an external investment pool and participants include The UCLA Foundation as well as organizations that are associated with The UCLA Foundation and UCLA, although not financially accountable to The UCLA Foundation. These organizations are not required to invest in the EIP.

The EIP is fair valued quarterly. Participants may purchase or redeem shares quarterly at the unitized value of the portfolio at the time of purchase or redemption. Payout and investment earnings are allocated quarterly to all participants based on the number of shares held at the beginning of the quarter.

The EIP is not registered with the SEC and is not subject to any formal oversight other than that provided by the UCLA Investment Company and The UCLA Foundation boards of directors.

The EIP investments authorized by The UCLA Foundation board of directors include equity, private equity/venture capital, multi-strategy, credit, real assets, real estate, and cash. The portfolio may utilize derivatives, exchange-traded funds or other instruments to manage risk.

Since a separate annual financial report of the EIP has not been and is not planned to be issued, the following additional disclosures are being provided in The UCLA Foundation's financial statements.

The following is a schedule of the EIP's Condensed Statement of Net position and Statement of Operations and Changes in Net Position as of and for the year ended June 30, 2016. The EIP represents the majority of the Foundation's total investments (excludes only \$297 million held in the UIP, \$51 million in Annuity and Life Income Funds, \$26 million in gifts of real estate, and \$5 million of other investments).

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Endowed Investment Pool
Condensed Statement of Net Position
(in thousands of dollars)

	2016
Assets	
Investments	\$ 1,782,055
Accounts and other receivables	27,502
Due from pool sponsor	-
Total assets	\$ 1,809,557
Liabilities	
Due to pool sponsor	\$ 5,539
Accounts and other payables	340
Total liabilities	\$ 5,879
 Net position as held for all pool participants	
Internal portion	\$ 1,596,603
External portion	207,075
Total net position	\$ 1,803,678

Endowed Investment Pool
Condensed Statement of Operations and Changes in Net Position
(in thousands of dollars)

	2016
Decrease in net position from operations	
Revenues	
Interest, dividends and distributions, net	\$ 11,408
Expenses	
Endowment cost recovery	(9,403)
Investment company management fees	(3,762)
Custody, taxes, and other	(79)
Total expenses	(13,244)
Realized gains (losses) and change in fair value of investments, net	(88,870)
Decrease in net position resulting from operations	(90,706)
Distributions to participants:	
Distributions paid	(83,212)
Share transactions:	
Net share transactions	113,280
Total decrease in net position	(60,638)
Net position:	
Beginning of year	1,864,316
End of year	\$ 1,803,678

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(7) Pledges Receivable

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of dollars)</i>	
Pledges receivable, gross	\$ 589,667	\$ 559,772
Less		
Allowance for uncollectible pledges	(26,295)	(28,004)
Discount for future payments	<u>(98,448)</u>	<u>(88,115)</u>
Pledges receivable, net	<u>\$ 464,924</u>	<u>\$ 443,653</u>
Current pledges receivable, net	\$ 94,805	\$ 74,317
Non-current pledges receivable, net	<u>370,119</u>	<u>369,336</u>
	<u>\$ 464,924</u>	<u>\$ 443,653</u>

Management evaluates the collectability of its receivables and records an allowance for estimated uncollectible amounts. The UCLA Foundation recorded a loss provision reversal for uncollectible pledges of \$1.2 million in fiscal year 2016 and \$6.8 million in fiscal year 2015. Loss provision reversals are recorded as adjustments to contribution revenue. In addition, The UCLA Foundation recorded a reduction in contribution revenue due to present value adjustments in FY16 and FY15 of \$10.3 million and \$35.2 million, respectively. Pledges due beyond one year have been discounted at an annual rate of 1.2% for pledges received in both fiscal year 2016 and 2015. Fifty-three percent of the pledges receivable, net of discount, are from five donors in fiscal 2016 as compared to fifty-eight percent in fiscal year 2015.

(8) 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 postretirement 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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June 30, 2016 and 2015

(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 and the endowment cost recovery fee is calculated as equal to the prior year's fee, adjusted for inflation. The inflation rate adjustment for FY16 was 0.12% and 2.07% for FY15. The gift and endowed cost recovery fees are included in operating expenses in the accompanying financial statements and totaled \$13.7 million and \$9.4 million in 2016 and \$15.6 million and \$9.4 million in 2015, respectively.

(c) *Grants to Campus*

The primary purpose of The UCLA Foundation is to raise funds in support of UCLA. In FY16, The UCLA Foundation issued grants to UCLA in the amount of \$219.2 million and \$203.4 million in FY15. 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.