

THE UCLA FOUNDATION

Financial Statements

June 30, 2021 and 2020

(With Report of Independent Auditors 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 business-type activities and aggregate remaining fund information of The UCLA Foundation ("Foundation"), a component unit of the University of California, which comprise the statements of net position and of fiduciary net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, of changes in fiduciary net position, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate remaining fund information of The UCLA Foundation as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 accounts for fiduciary funds in 2021. Our opinions are not modified with respect to this matter.

Other Matter

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

PricewaterhouseCoopers LLP

Los Angeles, CA
September 15, 2021

THE UCLA FOUNDATION

Management's Discussion and Analysis (Unaudited)

June 30, 2021 and 2020

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, 2021 (FY21), with selected comparative information for the fiscal year ended June 30, 2020 (FY20), and the fiscal year ended June 30, 2019 (FY19). Management's discussion and analysis for FY20 and FY19 has been restated to reflect the adoption of Governmental Accounting Standards Board (the GASB) Statement No. 84, *Fiduciary Activities*, a new standard described in more detail later in this report. This change in accounting policy requires funds held for others be reported separately as fiduciary activities, with reductions in related assets and liabilities on the statements of net position. All references to FY20 and FY19 within management's discussion and analysis are referencing to those years as restated. 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, 2021 and 2020

Condensed Financial Information (in thousands of dollars)

	2021	FY 2021-2020 change percentage	2020 as Restated	FY 2020-2019 change percentage	2019 as Restated
Assets					
Cash and cash equivalents	\$ 7,273	-9%	\$ 7,988	-13%	\$ 9,218
Investments:					
Short-term investments	501,414	2%	492,554	-2%	501,575
Long-term investments	3,699,303	39%	2,670,518	7%	2,490,576
Total investments	4,200,717	33%	3,163,072	6%	2,992,151
Pledges receivable, net	446,744	-7%	481,364	2%	470,389
Beneficial Interest in Split Interest Agreements	11,351	21%	9,388	-5%	9,899
Other assets	27,500	-59%	67,520	270%	18,258
Total assets	4,693,585	26%	3,729,332	7%	3,499,915
Liabilities					
Current liabilities	25,579	-20%	31,965	-6%	33,846
Noncurrent liabilities	35,182	7%	32,975	3%	32,166
Total liabilities	60,761	-6%	64,940	-2%	66,012
Deferred inflow of resources					
Deferred inflow - gift receipts	56,474	19%	47,353	-5%	49,845
Total deferred inflow of resources	56,474	19%	47,353	-5%	49,845
Net position					
Restricted net position	3,817,358	26%	3,017,766	4%	2,906,758
Unrestricted net position	758,992	27%	599,273	26%	477,300
Total net position	\$ 4,576,350	27%	\$ 3,617,039	7%	\$ 3,384,058
Revenues and expenses					
Operating revenues					
Contribution revenues	\$ 287,749	-29%	\$ 404,498	21%	\$ 334,414
Total operating revenues	287,749	-29%	404,498	21%	334,414
Operating expenses					
Gift fund distributions	315,674	7%	293,869	7%	274,483
Management and general expenses	50,747	17%	43,379	8%	40,128
Total operating expenses	366,421	9%	337,248	7%	314,611
Net operating income (loss)	(78,672)	-217%	67,250	240%	19,803
Nonoperating revenues (expenses)					
Change in realized gains and fair value of investments	883,291	11226%	7,799	-90%	75,759
Other nonoperating revenues	38,325	186%	13,407	-29%	18,981
Total nonoperating revenues (expenses)	921,616	4246%	21,206	-78%	94,740
Private gifts of permanent endowments	116,367	-19%	144,525	18%	122,232
Increase (decrease) in net position	959,311	312%	232,981	-2%	236,775
Net position:					
Beginning of year	3,617,039	7%	3,384,058	8%	3,147,283
End of year	\$ 4,576,350	27%	\$ 3,617,039	7%	\$ 3,384,058

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Management's Discussion and Analysis (Unaudited)

June 30, 2021 and 2020

Financial Highlights

In FY21, The UCLA Foundation's total assets increased by 26% or \$964.3 million to \$4,693.6 million at June 30, 2021, from \$3,729.3 million at June 30, 2020. In FY20, The UCLA Foundation's total assets increased by 7% or \$229.1 million to \$3,729.3 million at June 30, 2020, from \$3,500.2 million at June 30, 2019.

FY21 gifts to The UCLA Foundation, including donor contributions and additions to true endowments, decreased 26% or \$144.9 million in FY21 to \$404.1 million from \$549.0 million in FY20. Gifts to The UCLA Foundation increased 20% or \$92.4 million in FY20 to \$549.0 million, up from \$456.6 million in FY19. Please see the *Operating and Non-operating Revenues and Expenses* section below for further details.

Assets

Assets include cash, investments, pledges receivable, beneficial interest in split interest agreements, and other assets. Other assets include investment proceeds receivable and donor contributions in transit. Proceeds receivable represent amounts due for investments sold in one fiscal year, but which do not settle until the following fiscal year.

In FY21, assets increased by 26% or \$964.3 million to \$4,693.6 million from \$3,729.3 million at June 30, 2020. Investments increased 33% or \$1,037.6 million due to fiscal year endowed investment pool returns of 34.3% and private gifts of permanent endowments of \$116.4 million. Pledges receivable decreased \$34.6 million as pledge payments were greater than new pledges in FY21.

In FY20, assets increased by 7% or \$229.1 million to \$3,729.3 million from \$3,500.2 million at June 30, 2019. Investments increased 6% or \$170.7 million primarily due to private gifts of permanent endowment of \$144.5 million. Pledges receivable increased \$11.0 million as new pledges were greater than pledge payments in FY20.

Liabilities

Liabilities consist primarily of other liabilities, annuities payable, liabilities to life beneficiaries, and unearned revenue. Unearned revenue represents gift payments received that do not yet meet the revenue recognition requirements of Governmental Accounting Standards.

In FY21, The UCLA Foundation's total liabilities increased by \$5.7 million from \$55.1 million to \$60.8 million.

In FY20, The UCLA Foundation's total liabilities decreased by \$10.9 million from \$66.0 million to \$55.1 million.

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Management's Discussion and Analysis (Unaudited)

June 30, 2021 and 2020

Operating and Non-operating Revenues and Expenses

The condensed schedules of revenues, expenses and changes in net position summarize operating income, non-operating revenues, and private gifts of permanent endowments for FY21, FY20, and FY19.

In FY21, The UCLA Foundation's contribution revenue decreased \$116.8 million to \$287.7 million from \$404.5 million, a 29% decrease. Private gifts of permanent endowments decreased \$28.1 million to \$116.4 million in FY21 from \$144.5 million in FY20, a 19% decrease. This resulted in a combined decrease in total giving of 26%. The UCLA Foundation recorded operating expenses of \$366.4 million in FY21, an increase of \$29.2 million from FY20. The decrease in contribution revenue and increase in operating expenses, resulted in net operating loss of \$78.7 million in FY21. As compared to net operating income of \$67.3 million in FY20, this represents a decrease of \$146.0 million in net operating income.

In FY20, The UCLA Foundation's contribution revenue increased \$70.1 million to \$404.5 million from \$334.4 million, a 21% increase. Private gifts of permanent endowments increased \$22.3 million to \$144.5 million in FY20 from \$122.2 million in FY19. This resulted in a combined increase in total giving of 20%. The UCLA Foundation recorded operating expenses of \$337.2 million in FY20, an increase of \$22.6 million. The increase in contribution revenue, somewhat offset by the increase in operating expenses, resulted in net operating income of \$67.3 million in FY20. As compared to net operating income of \$19.8 million in FY19, this represents an increase of \$47.5 million in net operating income.

Non-operating revenues and expenses include net investment income, realized gains and losses on investments, and change in fair value of investments. Net non-operating revenue in FY21 totaled \$921.6 million as compared to \$21.2 million in FY20, an increase of \$900.4 million. FY20 net non-operating revenue decreased by \$73.5 million to \$21.2 million from a net non-operating revenue of \$94.7 million. The FY21 increase was due to Endowed Investment Pool (EIP) investment return of 34.3% whereas FY20 EIP investments returned 0.5%.

Net Position

In FY21, net position increased by \$959.4 million to \$4,576.4 million from \$3,617.0 million in FY20. This was primarily due to fiscal year endowed investment pool returns of 34.3%, contribution revenue of \$287.7 million in FY21, and private gifts of permanent endowment of \$116.4 million. The increase in net position in FY20 of \$232.9 million to \$3,617.0 million from \$3,384.1 million was primarily due to contribution revenue of \$404.5 million in FY20, private gifts of permanent endowment of \$144.5 million, and an increase in other assets of \$49.3 million.

Factors Impacting Future Periods

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce and financial markets globally, in the United States and in the State, including cities and counties throughout the State. While there have been and likely will continue to be material financial impacts to the campus due to COVID-19, impact to the Foundation is uncertain. Future impact will likely depend on the timing of economic recovery in general and the status of financial markets.

THE UCLA FOUNDATION

Statements of Net Position

June 30, 2021 and 2020

(in thousands of dollars)

	2021	2020 as Restated
Assets		
Current assets		
Cash	\$ 7,273	\$ 7,988
Short-term investments	501,414	492,554
Accounts and other receivables	21,460	62,682
Accrued investment income	2,966	1,692
Pledges receivable, net	79,141	84,228
Total current assets	612,254	649,144
Non-current assets		
Long-term investments	3,671,178	2,641,633
Investments in land and buildings	28,125	28,885
Accounts and other receivables	3,074	3,146
Beneficial interest in irrevocable split interest agreements	11,351	9,388
Pledges receivable, net	367,603	397,136
Total non-current assets	4,081,331	3,080,188
Total assets	\$ 4,693,585	\$ 3,729,332
Liabilities		
Current liabilities		
Accounts and grants payable	\$ 8,209	\$ 9,987
Unearned Revenue	5,614	5,379
Annuities payable	2,333	2,644
Liabilities to life beneficiaries	2,211	1,793
Other Liabilities	7,212	12,162
Total current liabilities	25,579	31,965
Non-current liabilities		
Annuities payable	16,135	17,833
Liabilities to life beneficiaries	19,047	15,142
Total non-current liabilities	35,182	32,975
Total liabilities	\$ 60,761	\$ 64,940
Deferred Inflow of Resources		
Deferred inflow - gift receipts	\$ 56,474	\$ 47,353
Total deferred inflow of resources	\$ 56,474	\$ 47,353

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Statements of Net Position (Continued)

June 30, 2021 and 2020

(in thousands of dollars)

	<u>2021</u>	<u>2020</u> <u>as Restated</u>
Net Position		
Net Position:		
Restricted for:		
Non-expendable:		
Endowments	\$ 1,604,267	\$ 1,466,077
Expendable:		
Endowment earnings	741,483	271,124
Funds functioning as endowments	816,227	622,783
Gifts	655,381	657,782
Unrestricted	758,992	599,273
Total net position	<u>\$ 4,576,350</u>	<u>\$ 3,617,039</u>

THE UCLA FOUNDATION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2021 and 2020

(in thousands of dollars)

	2021	2020 as Restated
Operating revenues:		
Contributions	\$ 287,749	\$ 404,498
Total operating revenues	287,749	404,498
Operating expenses:		
Gift fund distributions	315,674	293,869
Gift administration fees	17,392	18,354
Endowment cost recovery	19,180	10,044
UCLA Chancellor's priorities	6,000	6,000
UCLA Investment Company management fees	6,356	5,811
General expenditures	1,819	3,170
Total operating expenses	366,421	337,248
Operating (loss) income	(78,672)	67,250
Non-operating revenues and expenses:		
Interest, dividends and distributions, net	38,325	13,407
Net increase in the fair value of investments	883,291	7,799
Total non-operating revenues and expenses, net	921,616	21,206
Income before other changes in net position	842,944	88,456
Other changes in net position:		
Private gifts of permanent endowments	116,367	144,525
Increase in net position	959,311	232,981
Net position:		
Beginning of year	3,617,039	3,384,058
End of year	\$ 4,576,350	\$ 3,617,039

THE UCLA FOUNDATION

Statements of Cash Flows

Years ended June 30, 2021 and 2020

(in thousands of dollars)

	2021	2020 as Restated
Cash flows from operating activities:		
Contributions	\$ 290,339	\$ 361,932
Gift fund distributions and operating expenses	(368,000)	(334,822)
Beneficiary payments	(4,287)	(4,114)
Other operating receipts, net	1,103	575
Net cash provided by (used in) operating activities	(80,845)	23,571
Cash flows from non-capital financing activities:		
Private gifts for endowment purposes	104,112	103,564
Net cash provided by non-capital financing activities	104,112	103,564
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	580,052	387,387
Purchases of investments	(641,288)	(527,800)
Interest, dividends and distributions, net	37,254	12,048
Net cash used in investing activities	(23,982)	(128,365)
Net decrease in cash	(715)	(1,230)
Cash:		
Beginning of year	7,988	9,218
End of year	\$ 7,273	\$ 7,988
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating (loss) income	\$ (78,672)	\$ 67,251
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Non-cash gifts	(33,564)	(32,160)
Provision for uncollectible pledges receivable	2,282	5,117
Changes in operating assets and liabilities:		
Investments	1,241	(1,692)
Accounts and other receivables	1,381	(463)
Pledges receivable, net	32,339	(16,093)
Accounts and grants payable	(1,779)	2,502
Annuities payable	(1,453)	396
Liabilities to life beneficiaries	1,287	570
Other liabilities	(6,210)	(4,538)
Deferred inflows	2,068	2,052
Unearned revenue	235	629
Net cash provided by (used in) operating activities	\$ (80,845)	\$ 23,571
Supplemental non-cash activities information:		
Gifts of securities and real property – operating	\$ 33,564	\$ 32,160
Gifts of securities and real property – for endowment purposes	12,255	40,961
Beneficial interests in irrevocable split interest agreements administered by third parties	(274)	640

THE UCLA FOUNDATION CUSTODIAL INVESTMENTS

Statements of Fiduciary Net Position

June 30, 2021 and 2020

(in thousands of dollars)

	2021	2020 as Restated
Assets		
Short-term investments	\$ 57,335	\$ 52,520
Long-term investments	299,583	228,936
Total assets	\$ 356,918	\$ 281,456
Net Position Held In Custodial Funds		
Custodial investment funds, restricted	\$ 356,918	\$ 281,456
Total net position held in custodial funds	\$ 356,918	\$ 281,456

THE UCLA FOUNDATION CUSTODIAL INVESTMENTS

Statements of Changes in Fiduciary Net Position

Years ended June 30, 2021 and 2020

(in thousands of dollars)

	2021	2020 as Restated
Additions:		
Contributions	\$ 33,349	\$ 44,473
Appreciation (depreciation) of fair value of investments, net	84,502	6,180
Interest, dividends, and other investment income, net	432	871
Total additions	118,283	51,524
Deductions:		
Withdrawals	41,129	48,816
Bank and investment fees	1,692	1,536
Total deductions	42,821	50,352
Change in net position held in custodial funds	75,462	1,172
Net position held in custodial funds:		
Beginning of year	281,456	280,284
End of year	\$ 356,918	\$ 281,456

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Notes to Financial Statements

June 30, 2021 and 2020

(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. 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. The UCLA Investment Company only provides services to UCLA, 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 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, 2021 and 2020

(b) New Accounting Pronouncements

The Foundation has retroactively implemented GASB Statement No. 84, *Fiduciary Activities* (GASB 84), effective for the University’s fiscal year beginning July 1, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or an equivalent arrangement that meets specific criteria.

The effects of reporting Statement No. 84 in the Foundation’s financial statements for the year ended June 30, 2020, are as follows:

	As Previously Reported	Effect of Adoption of GASB 84	As Restated
Assets			
Current assets			
Short-term investments	\$ 545,074	\$ (52,520)	\$ 492,554
Total current assets	701,664	(52,520)	649,144
Non-current assets			
Long-term investments	2,870,569	(228,936)	2,641,633
Total non-current assets	3,309,124	(228,936)	3,080,188
Total assets	\$ 4,010,788	\$ (281,456)	\$ 3,729,332
Liabilities			
Current liabilities			
Amounts Held for Others	\$ 293,618	\$ (293,618)	\$ -
Other Liabilities	—	12,162	12,162
Total current liabilities	313,421	(281,456)	31,965
Total liabilities	\$ 346,396	\$ (281,456)	\$ 64,940
Net Position			
Total net position	\$ 3,617,039	\$ -	\$ 3,617,039

The notes to the financial statements for the year ended June 30, 2020 have been restated to reflect the adoption of GASB 84. All references to the year ended June 30, 2020 within the following notes to financial statements are referencing to that year as restated.

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Notes to Financial Statements

June 30, 2021 and 2020

(c) Cash

The UCLA Foundation considers all operating demand deposit accounts as cash. At June 30, 2021 and 2020, the carrying amount of The UCLA Foundation's general ledger cash held was approximately \$7.3 million and \$8.0 million, respectively. At June 30, 2021 and 2020, The UCLA Foundation had cash in banks in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits of approximately \$5.3 million and \$6.7 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 per share (NAV) of the share class held. Alternative investments are primarily valued based on final or estimated NAV reported by the general partners and managers of the respective alternative investment as of the statement of net position date. In instances where the dates are not coterminous, alternative investments are valued based on the most recent NAV adjusted for any subsequent cash flows through the statement of net position date. NAV reported by the general partners or fund managers is based on the fair value of the alternative investments' underlying assets as determined 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 alternative 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.

Investment income is comprised of dividends, interest, and other investment income and is shown net of external investment management and custody fees.

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 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 is intended to be maintained in perpetuity, and second, the EIP seeks to 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

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Notes to Financial Statements

June 30, 2021 and 2020

expenditure limits; instead, a charity can spend the amount the charity deems prudent after considering the donor's intent that the endowment continues permanently, the purpose of the fund, and relevant economic factors. The UCLA Foundation's fiscal year 2021 spending rate is set at 5.00% of a 12-quarter rolling average market value while the spending rate for fiscal year 2020 was 4.25%. 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). The fiscal year 2021 year-end balance invested in the Regent's STIP by the UCLA Foundation and Custodial Investments Funds were \$496.7 million and \$57.3 million respectively. The fiscal year 2020 year-end balance invested in the Regent's STIP by the UCLA Foundation and Custodial Investment Funds were \$484.4 million and \$52.5 million, respectively. 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. These 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.

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.

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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 acquisition value on the date of the gift. At fiscal year-end, the acquisition values of land and buildings are updated based on recent market conditions and are based on the recent sales prices 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 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.

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(g) Donated Assets

Securities and other non-monetary items donated to The UCLA Foundation are recorded at fair value and acquisition value, respectively, on the date of the gift. Fair values and acquisition values are updated as of the statement of net position date for any unsold donated assets. Fair value is based on the recent sales prices 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 deferred inflows at the date of gift.

For the year ended June 30, 2021 and 2020, liabilities for gift annuities and trusts are discounted based on the discount rate as of the date of the gifts, which ranged from 0.4% to 10.6%.

(i) Deferred Inflows

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

(j) 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 value of endowment investments and are classified as restricted-expendable net position unless otherwise specified by the donor.

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Funds functioning as endowment – Funds functioning as endowments are gifts which are restricted for a specific purpose by the donor, yet, unlike endowments, the principal 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.

Custodial investment funds – restricted represent funds held by the Foundation under an agency relationship with various affiliated entities, and are not included in the net position of the UCLA Foundation.

(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 fiscal year 2021 and \$6 million in fiscal year 2020. These grants are reported as UCLA Chancellor’s priorities in the Statements of Revenue, Expenses, and Changes in Net Position.

Non-operating revenues and expenses primarily include interest, dividends, distributions, and net realized gains (losses) on the sale of investments as well as the net 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.

(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

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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, and is not material to the basic financial statements taken as a whole.

(3) Investments

The UCLA Foundation holds significant investments in the form of domestic, international and global equity funds. 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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The following table provides the composition of investments at June 30, 2021 and 2020:

	2021	2020 as Restated
	<i>(in thousands of dollars)</i>	
Equity securities		
Domestic	\$ 13,436	\$ 14,208
Foreign	10,375	10,434
Subtotal equity securities	23,811	24,642
Fixed income securities		
U.S. Government guaranteed		
U.S. Treasury bills and notes	8,290	9,353
U.S. Government backed – asset-backed securities	165	55
Subtotal U.S. government guaranteed	8,455	9,408
Other U.S. dollar denominated		
Corporate bonds	152,353	86,454
Corporate structured financial instruments	54	54
Other	85	111
Subtotal Other U.S. dollar denominated	152,492	86,619
Commingled funds and others		
Commingled funds – absolute return and hedge funds	2,332,406	1,797,909
Commingled funds – balanced funds	9,356	7,042
Commingled funds – U.S. equity funds	20,894	18,205
Commingled funds – non-U.S. equity funds	13,123	10,343
Commingled funds – U.S. bond funds	61,754	10,828
Commingled funds – non-U.S. bond funds	5,207	4,087
Commingled funds – real estate investment trusts	28,734	24,466
Commingled funds – money market funds	651,933	699,673
Commingled funds – private equity	690,357	421,301
Subtotal commingled funds	3,813,764	2,993,854
Real estate	169,950	137,738
Futures and options contracts	8,509	-
Commodities and other investments	380,654	192,266
Custodial Investment Funds	(356,918)	(281,456)
Total investments	\$ 4,200,717	\$ 3,163,071

Investments are exposed to several risks, such as market, credit, custodial, foreign currency, and interest rate risks, which can affect the value of the investments. Market risk is the possibility that the investments experience losses due to factors that affect the overall performance of the financial markets such as economic conditions, individual company earnings, and market liquidity.

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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. 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.

	2021	2020
	<u>2021</u>	<u>as Restated</u>
	<i>(in thousands of dollars)</i>	
Fixed or variable income securities		
U.S. government guaranteed	\$ 8,455	\$ 9,408
Other U.S. dollar denominated		
AAA	-	111
AA	85	-
BBB	3,277	-
BB	76,675	43,802
B	56,811	38,064
CCC or below	12,818	4,346
Not rated	54	296
Total other U.S. dollar denominated	<u>149,720</u>	<u>86,619</u>
Commingled funds		
U.S. bond funds: Not rated	61,754	10,828
Non-U.S. bond funds: Not rated	5,207	4,087
Money market funds: Not rated	651,933	699,673
Total commingled funds subject to credit risk	<u>718,894</u>	<u>714,588</u>
Custodial Investment Funds	<u>(80,296)</u>	<u>(72,602)</u>
Total funds subject to credit risk	<u>\$ 796,773</u>	<u>\$ 738,013</u>

(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.

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(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 are held in FY21 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 below summarizes the average effective duration of its fixed income investments.

	2021	2020 as Restated
	<i>(effective duration in years)</i>	
Fixed or variable income securities		
U.S. Government		
U.S. Treasury bills	.2	.2
U.S. Treasury notes	2.8	3.7
U.S. Government backed – asset backed securities	4.7	3.4
Other U.S. dollar denominated		
Corporate bonds	.9	1.6
Others	9.6	9.5
Commingled funds:		
U.S. bond funds	2.8	5.7
Non-U.S. bond funds	7.4	8.0
Money market funds	.1	.4
Investments highly sensitive to changes in interest rates		
<i>(in thousands of dollars)</i>		
Mortgage backed securities	\$ 165	\$ 55

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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.

	2021	2020 as Restated
	<i>(in thousands of dollars)</i>	
Equity securities		
Indian Rupee	\$ 10,200	\$ 5,225
Miscellaneous	175	5,209
Total equity securities subject to foreign currency risk	\$ 10,375	\$ 10,434
Commingled funds and others		
Various currency denominations		
Commingled funds - Non-U.S. equity	\$ 13,123	\$ 10,343
Commingled funds - Non-U.S. bond funds	5,206	4,087
Commingled funds - Real estate investment trusts	3,461	2,792
Commingled funds - Real assets	93,194	66,364
Commingled funds - Absolute return	1,032,718	804,006
Commingled funds - Balanced funds	71	55
Private equity	13,292	3,268
Real estate	46,809	38,625
Total commingled funds and others subject to foreign currency risk	\$ 1,207,874	\$ 929,540
Custodial Investment Funds	\$ (92,511)	\$ (75,682)
Total exposure to foreign currency risk	\$ 1,125,738	\$ 864,292

(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.

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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.

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 and beneficial interest in irrevocable split interest agreements classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments and beneficial interest in irrevocable split interest agreements are based upon the best information in the circumstance and may require significant management judgment. Level 3 financial instruments include investments in privately held companies, real estate, and beneficial interest in irrevocable split interest agreements. The UCLA Foundation uses a combination of the market and income approaches to fair value the privately held companies and beneficial interest in split interest agreements. 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 Per Share – Investments which use NAV as a practical expedient to determine fair value are excluded from the fair value hierarchy. Such investments do not have a readily determinable fair value and may be valued at NAV provided that the NAV of the investment is calculated in a manner consistent with the measurement principles of GASB Statement No. 72, *Fair Value Measurement and Application*, as of The UCLA Foundation's measurement date. Investments measured at NAV include hedge funds, private equity investments, real estate, and commingled funds. In addition, The UCLA Foundation's investments include investments in certain pools managed by the University of California (UC) (principally the STIP as discussed in Note 2). The UC investment pools transact at share value or NAV as determined by the University of California based upon the underlying fair values of the pooled investments. These investment pools are not registered with the Securities and Exchange Commission. The UC's Chief Investment Officer manages the pools and the Regents, as the governing board, are responsible for the oversight. Additional information on the UC investment pools can be obtained from the Annual Financial Report of the University of California.

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The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2021, and June 30, 2020:

As of 6/30/2021

(in thousands of dollars)

	Fair Value Measurements Using					Total
	in Active	Other	Unobservable	Net Asset	Not Leveled	
	Markets for	Observable	Inputs	Value		
(Level 1)	(Level 2)	(Level 3)	(NAV)			
Equity securities	\$ 7,404		\$ 16,407			\$ 23,811
Fixed or variable income securities						
U.S. government guaranteed		8,455				8,455
Other U.S. dollar denominated		152,438	54			152,492
Commingled funds	141,942			3,671,822		3,813,764
Investment derivatives		8,509				8,509
Real Estate			28,125	141,825		169,950
Commodities and other investments	97			379,343	1,214	380,654
Custodial Investment Funds	(4,565)	(12,440)	(1,150)	(338,763)	-	(356,918)
Total investments	\$ 144,878	\$ 156,962	\$ 43,436	\$ 3,854,227	\$ 1,214	\$ 4,200,717
Beneficial interests in irrevocable split interest agreements			11,351			

As of 6/30/2020 as Restated

(in thousands of dollars)

	Fair Value Measurements Using					Total
	in Active	Other	Unobservable	Net Asset	Not Leveled	
	Markets for	Observable	Inputs	Value		
(Level 1)	(Level 2)	(Level 3)	(NAV)			
Equity securities	\$ 13,349		\$ 11,293			\$ 24,642
Fixed or variable income securities						
U.S. government guaranteed		9,408				9,408
Other U.S. dollar denominated		86,565	54			86,619
Commingled funds	76,523			2,917,331		2,993,854
Real Estate			28,885	108,853		137,738
Commodities and other investments				191,046	1,220	192,266
Custodial Investment Funds	(1,153)	(7,092)	(812)	(272,400)	-	(281,457)
Total investments	\$ 88,719	\$ 88,881	\$ 39,420	\$ 2,944,830	\$ 1,220	\$ 3,163,070
Beneficial interests in irrevocable split interest agreements			9,388			

The UCLA 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 utilizing NAV as a practical expedient by major category as well as unfunded commitments as of June 30, 2021 and June 30, 2020.

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As of 6/30/21

(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	\$ 2,332,406	\$ 17,434	Not Applicable	Ranges between monthly, quarterly, semi-annually, and annual redemptions with notice periods ranging between 30, 45, 60, 65, 75, 90, and 180 days.	As of June 30, 2021, approximately 29% of NAV is locked up for 6 months. 12% 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	9,285	-	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	639,774	-	Not Applicable	Daily	Not Applicable
Private equity	Investments in private equity funds that invest both domestically and internationally across venture capital, buyouts, high yields and subordinated debt	690,357	449,309	Approximately 0-13 years remaining	Redemptions are not permitted during the life of the fund.	Not Applicable
Real estate	US and non-US real estate investment funds	141,825	190,564	Approximately 0-12 years remaining	Redemptions are not permitted during the life of the fund.	Not Applicable
Commodities	Investment in funds comprised of oil and gas, commodities, and timber	379,343	27,833	Approximately 0-7 years remaining	Redemptions are not permitted during the life of the fund.	Not Applicable
Custodial Investment Funds		(338,763)	(52,987)			
Total		\$ 3,854,227	\$ 632,153			

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As of 6/30/20 as Restated

(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	\$ 1,797,909	\$ 21,586	Not Applicable	Ranges between monthly, quarterly, semi-annually, and annual redemptions with notice periods ranging between 30, 45, 60, 65, 75, 90, and 180 days.	As of June 30, 2020, approximately 33% of NAV is locked up for 6 months. 7% 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	6,987	-	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	691,134	-	Not Applicable	Daily	Not Applicable
Private equity	Investments in private equity funds that invest both domestically and internationally across venture capital, buyouts, high yields and subordinated debt	421,301	290,760	Approximately 0-15 years remaining	Redemptions are not permitted during the life of the fund.	Not Applicable
Real estate	US and non-US real estate investment	108,853	80,523	Approximately 0-13 years	Redemptions are not permitted during the	Not Applicable
Commodities	Investment in funds comprised of oil and gas, commodities, and timber	191,046	46,631	Approximately 0-8 years remaining	Redemptions are not permitted during the life of the fund.	Not Applicable
Custodial Investment Funds		(272,400)	(36,055)			
Total		<u>\$ 2,944,830</u>	<u>\$ 403,445</u>			

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(5) Derivative Financial Instruments

Investments are exposed to several risks, such as market, credit, custodial, 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.

Total return equity swaps

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 2021.

Put options written

In 2017, The UCLA Foundation appointed an investment manager to pursue a collateralized put-write option strategy. When options are written, an amount equal to the premium received by The UCLA Foundation is recorded as a liability and subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by The UCLA Foundation on the expiration date as realized gains from investments. The difference between the premium and amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. For put options that are exercised, the premium reduces the cost basis of the underlying securities purchased by The UCLA Foundation. The UCLA Foundation as a writer of an option bears the market risk of an unfavorable change in the price of the equity index underlying the written option. Written options are valued at the mid-price at the close of trading in the market where such options are principally traded. During FY20, the Foundation exited this strategy and took all outstanding positions to zero.

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The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2021, and June 30, 2020, respectively, and the changes in the fair value of such investment derivatives for the years then ended for The UCLA Foundation and The UCLA Foundation custodial investment funds are as follows:

	<u>Notional Amount</u>		<u>Fair Value</u>			<u>Changes in Fair Value</u>		
	<u>2021</u>	<u>2020</u>	<u>Classification</u>	<u>2021</u>	<u>2020</u>	<u>Classification</u>	<u>2021</u>	<u>2020</u>
<i>(in thousands of dollars)</i>								
Business-type activities								
Total return swaps equity	\$157,275	\$ 59,610	Short-term and Long-term investments	\$ 1,439	\$ -	Realized gains (losses) and change in fair value of investments, net	\$ 29,437	\$ (12,135)
Written options	\$ -	\$ -	Current liabilities Accounts and grants payable	\$ 7,070	\$ -	Realized gains (losses) and change in fair value of investments, net	\$ (12,930)	\$ (6,893)

(6) Approved Endowment Payout

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

	<u>2021</u>	<u>2020</u>
	<i>(in thousands of dollars)</i>	
Investment income, net	\$ 27,737	\$ 4,484
Net accumulated gains and principal	90,736	88,081
	<u>\$ 118,473</u>	<u>\$ 92,565</u>

In addition to the above, The UCLA Foundation allocated payout to affiliated entities and unrestricted funds of \$33.9 million in fiscal year 2021 and \$25.2 million in fiscal year 2020, bringing the total endowed investment pool approved payout to \$152.4 million in fiscal 2021 and \$117.7 million in fiscal year 2020.

(7) 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.

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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 are schedules of the EIP's Condensed Statements of Net Position and Statements of Operations and Changes in Net Position as of and for the years ended June 30, 2021, and June 30, 2020. The EIP represents the majority of The UCLA Foundation's total investments. As of June 30, 2021, in addition to the EIP, total investments also include \$554.0 million held in the UIP, \$71.5 million in Annuity and Life Income Funds, \$30.3 million in separately held special purpose funds, and \$28.1 million in gifts of real estate. As of June 30, 2020, total investments also include \$536.9 million held in the UIP, \$60.2 million in Annuity and Life Income Funds, \$28.8 million in gifts of real estate, and \$27.8 million of separately held special purpose funds.

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

	<u>2021</u>	<u>2020</u> <u>as Restated</u>
Assets		
Investments	\$ 3,873,758	\$ 2,790,776
Accounts and other receivables	21,990	60,740
Due from pool sponsor	(2,920)	28,702
Total assets	<u>\$ 3,892,828</u>	<u>\$ 2,880,218</u>
Liabilities		
Accounts and other payables	9	6
Total liabilities	<u>\$ 9</u>	<u>\$ 6</u>
Net position as held for all pool participants		
UCLA Foundation	\$ 3,591,761	\$ 2,643,966
Restricted custodial investment funds	301,058	236,246
Total net position	<u>\$ 3,892,819</u>	<u>\$ 2,880,212</u>

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

	2021	2020 as Restated
Increase in net position from operations		
Revenues		
Interest, dividends and distributions, net	\$ 34,195	\$ 5,760
Expenses		
Endowment cost recovery	(19,269)	(10,093)
Investment company management fees	(4,682)	(5,227)
Custody, taxes, and other	(218)	(60)
Total expenses	(24,169)	(15,380)
Realized gains (losses) and change in fair value of investments, net	956,642	12,063
Increase in net position resulting from operations	966,668	2,443
Distributions to participants:		
Distributions paid to The UCLA Foundation	(140,193)	(107,632)
Distributions paid to restricted custodial investment funds	(12,196)	(10,115)
Share transactions:		
The UCLA Foundation		
Shares bought	193,093	241,339
Shares sold	(4,940)	(4,896)
Reinvested distributions	10,426	4,687
Restricted custodial investment funds		
Shares bought	825	9,619
Shares sold	(1,076)	(2,207)
Total increase in net position	1,012,607	133,238
Net position:		
Beginning of year	2,880,212	2,746,974
End of year	\$ 3,892,819	\$ 2,880,212

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June 30, 2021 and 2020

(8) Pledges Receivable

Pledges receivable consist of the following at June 30:

	2021	2020
	<i>(in thousands of dollars)</i>	
Pledges receivable, gross	\$ 551,676	\$ 593,254
Less		
Allowance for uncollectible pledges	(17,781)	(17,860)
Discount for future payments	(87,151)	(94,030)
Pledges receivable, net	\$ 446,744	\$ 481,364
Current pledges receivable, net	\$ 79,141	\$ 84,228
Non-current pledges receivable, net	367,603	397,136
	\$ 446,744	\$ 481,364

Management evaluates the collectability of its receivables and records an allowance for estimated uncollectible amounts. The UCLA Foundation recorded a loss provision for uncollectible pledges of \$2.3 million in fiscal year 2021 and a loss provision of \$5.1 million in fiscal year 2020. Loss provisions are recorded as adjustments to contribution revenue. In addition, The UCLA Foundation recorded an increase in contribution revenue due to present value adjustments of \$6.9 million in FY21 and \$1.2 million in FY20. Pledges due beyond one year have been discounted at an annual rate of 0.8% for pledges received in fiscal year 2021 and 1.7% for pledges received in fiscal year 2020. Fifty-three percent of the pledges receivable, net of discount, are from five donors in fiscal 2021 as compared to 54% in fiscal year 2020.

(9) Annuity and Life Income Funds

Changes in annuity and life beneficiary liabilities during FY21 and FY20 are summarized as follows:

(in thousands of dollars)

	Balance at	New	Less: Adjustments to		Balance at
Liabilities to:	June 30, 2020	Obligations	Beneficiary	Existing	June 30, 2021
			Payments	Liabilities	
Annuitants	\$ 20,477	\$ 185	\$ (2,342)	\$ 148	\$ 18,468
Life beneficiaries	16,935	2,351	(1,945)	3,917	21,258
Total	\$ 37,412	\$ 2,536	\$ (4,287)	\$ 4,065	\$ 39,726

	Balance at	New	Less: Adjustments to		Balance at
Liabilities to:	June 30, 2019	Obligations	Beneficiary	Existing	June 30, 2020
			Payments	Liabilities	
Annuitants	\$ 19,423	\$ 1,786	\$ (2,344)	\$ 1,612	\$ 20,477
Life beneficiaries	16,908	1,112	(1,769)	684	16,935
Total	\$ 36,331	\$ 2,898	\$ (4,113)	\$ 2,296	\$ 37,412

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(10) 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.

(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, beginning in FY21, the endowment cost recovery fee is calculated quarterly as 65 basis points of the beginning fair market value of the UCLA Foundation's portion of the Endowed Investment Pool (EIP). The gift and endowed cost recovery fees are included in operating expenses in the accompanying financial statements and totaled \$17.4 million and \$19.2 million in 2021 and \$18.4 million and \$10.0 million in 2020, respectively. The amounts due to campus for gift and endowed cost recovery fees were \$4.1 million as of June 30, 2021 and \$5.9 million as of June 30, 2020.

(c) Grants to Campus

The primary purpose of The UCLA Foundation is to raise funds in support of UCLA. In FY21, The UCLA Foundation issued grants to UCLA in the amount of \$284.8 million and \$281.8 million in FY20. 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 benefiting 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.

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(11) COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce and financial markets globally, in the United States and in the State. On March 4, 2020, the Governor declared a state of emergency to help the State prepare and respond to COVID-19. State orders and restrictions have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellations of events. Given the difficulty in predicting the duration and severity of the coronavirus on the economy and the financial markets, the ultimate impact to the Foundation in 2021 and potentially beyond is uncertain.

(12) Subsequent Events

The Foundation has evaluated subsequent events from the net position date through September 15, 2021, the date which the financial statements were available to be issued, and determined there are no items to disclose.