

THE UCLA FOUNDATION

Financial Statements

June 30, 2017 and 2016

(With Report of Independent Auditors Thereon)

THE UCLA FOUNDATION

Table of Contents

	Page
Report of Independent Auditors	1-2
Management's Discussion and Analysis (Unaudited)	3-6
Basic Financial Statements:	
Statements of Net Position	7-8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11-30



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 statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017 and 2016, respectively, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

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.

PricewaterhouseCoopers LLP

October 4, 2017

THE UCLA FOUNDATION

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

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, 2017 (FY17), with selected comparative information for the fiscal year ended June 30, 2016 (FY16), and the fiscal year ended June 30, 2015 (FY15). 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.

THE UCLA FOUNDATION

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

Condensed Financial Information (in thousands of dollars)

	2017	FY 2017-2016 change percentage	2016	FY 2016-2015 change percentage	2015
Assets					
Cash	\$ 5,110	7%	\$ 4,794	23%	\$ 3,910
Investments					
Short-term investments	381,987	28%	299,346	5%	286,046
Long-term investments	2,170,920	17%	1,862,426	-1%	1,883,535
Total investments	2,552,907	18%	2,161,772	0%	2,169,581
Pledges receivable, net	437,463	-6%	464,924	5%	443,653
Other assets	39,392	-6%	41,773	-31%	60,698
Total assets	3,034,872	14%	2,673,263	0%	2,677,842
Liabilities					
Current liabilities	271,802	7%	254,271	3%	247,627
Non-current liabilities	32,449	10%	29,430	-7%	31,641
Total liabilities	304,251	7%	283,701	2%	279,268
Deferred inflow of resources					
Deferred inflow - gift receipts	1,723	18%	1,460	2%	1,428
Total deferred inflow of resources	1,723	18%	1,460	2%	1,428
Net position					
Restricted net position	2,580,456	11%	2,329,702	0%	2,324,941
Unrestricted net position	148,442	154%	58,400	-19%	72,205
Total net position	\$ 2,728,898	14%	\$ 2,388,102	0%	\$ 2,397,146
Revenues and expenses					
Operating revenues					
Contribution revenues	\$ 287,297	22%	\$ 235,119	26%	\$ 186,517
Total operating revenues	287,297	22%	235,119	26%	186,517
Operating expenses					
Gift fund distributions	249,231	11%	224,358	7%	208,760
Management and general expenses	29,881	8%	27,796	-9%	30,597
Total operating expenses	279,112	11%	252,154	5%	239,357
Operating (loss) income	8,185	148%	(17,035)	68%	(52,840)
Non-operating revenues					
Realized gains (losses) and change in fair value of investments, net	246,288	420%	(77,029)	-202%	75,640
Other non-operating revenues	15,604	5%	14,882	-48%	28,723
Total non-operating (expenses) revenues, net	261,892	521%	(62,147)	-160%	104,363
Private gifts of permanent endowments					
Change in net position	70,719	1%	70,138	5%	66,981
	\$ 340,796	3868%	\$ (9,044)	-108%	\$ 118,504

THE UCLA FOUNDATION

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

Financial Highlights

In FY17, The UCLA Foundation's total assets increased by 14% or \$361.6 million to \$3,034.9 million at June 30, 2017 from \$2,673.3 million at June 30, 2016. 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. The increase in FY17 was primarily due to endowed investment pool (EIP) returns of 15.8% as well as an increase in contribution revenue while the FY16 decrease was due to negative EIP investment returns of 4.1% offset by an increase in contribution revenue.

FY17 gifts to The UCLA Foundation, including donor contributions and additions to true endowments, increased 17% or \$52.7 million in FY17 to \$358.0 million from \$305.3 million in FY16. 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. Please see the *Operating and Non-operating Revenues and Expenses* section below for further details.

Assets

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 one fiscal year, but which do not settle until the following fiscal year.

In FY17, assets increased by 14% or \$361.6 million to \$3,034.9 million from \$2,673.3 million at June 30, 2016. Investments increased 18% or \$391.1 million primarily due to an EIP increase of \$255.6 million resulting from positive investment returns of 15.81%. In addition, the unendowed investment pool (UIP) increased by \$83 million largely due to an increase in current expenditure gift balances. Special purpose funds, which are individually invested according to donor directives, also increased by \$44.9 million due to the receipt of three donor advised fund gifts. The increase in investments was slightly offset by a decrease in pledges receivable of \$27.5 million as pledge payments were greater than new pledges in FY17.

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. 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%.

Liabilities

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.

In FY17, The UCLA Foundation's total liabilities increased by \$20.6 million from \$283.7 million to \$304.3 million. This was due to an increase in amounts held for others of \$15.3 million and liabilities to annuitants and life beneficiaries of \$3.2 million.

THE UCLA FOUNDATION

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

In FY16, liabilities increased by \$4.4 million to \$283.7 million from \$279.3 million at June 30, 2015. This was largely due to amounts held for others which grew by \$8.0 million as a result of additional affiliated entity investments somewhat offset by investment losses.

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 FY17, FY16 and FY15.

In FY17, The UCLA Foundation's contribution revenue increased \$52.2 million to \$287.3 million from \$235.1 million, a 22% increase. This increase was primarily due to the receipt of several large donor advised fund gifts in FY17 totaling \$83.6 million versus \$34.8 million in FY16, an increase of \$48.8 million. Private gifts of permanent endowments remained steady at \$70.7 million in FY17 versus \$70.1 million in FY16 for a combined increase in total giving of 17%. The UCLA Foundation recorded operating expenses of \$279.1 million in FY17, an increase of \$26.9 million. This was driven by an increase in gift fund distributions benefiting the UCLA campus. Net operating income was \$8.2 million in FY17 as compared to a net loss of \$17 million in FY16, an increase of \$25.2 million or 148%.

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. Private gifts of permanent endowments rose 5% to \$70.1 million from \$67 million in FY15. As a result, total giving to The UCLA Foundation rose by 20% in FY16 versus FY15. 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 operating expenses exceeding contribution revenue, The UCLA Foundation recorded an operating loss of \$17 million in FY16, a 68% decrease from 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. Net non-operating revenue in FY17 totaled \$261.9 million as compared to net non-operating expense of \$62.1 million in FY16, an increase of \$324.0 million. FY16 decreased by \$166.5 as compared to net non-operating revenue in FY15 of \$104.4 million. The FY17 increase was due to EIP investment gains of 15.81% while the FY16 decrease was due to EIP losses of 4.1% versus a positive return of 6.4% for FY15.

Net Position

In FY17, net position increased by \$340.8 million to \$2,728.9 million as compared to a decrease of \$9 million in FY16 to \$2,388.1 million, a swing of \$340.8 million. This was primarily due to positive EIP investment returns of 15.81% in FY17 versus EIP investment losses of -4.1% in FY16. The net position decrease of \$9 million in FY16 versus net position increase in FY15 of \$118.5 million was due to EIP investment losses of -4.1% in FY 16 as compared to investment gains of 6.4% in FY15.

Factors Impacting Future Periods

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

THE UCLA FOUNDATION

Statements of Net Position

June 30, 2017 and 2016

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash	\$ 5,110	\$ 4,794
Short-term investments	381,987	299,346
Accounts and other receivables	31,542	32,085
Accrued investment income	641	361
Pledges receivable, net	64,141	94,805
Total current assets	<u>483,421</u>	<u>431,391</u>
Non-current assets		
Long-term investments	2,143,429	1,835,937
Investments in land and buildings	27,491	26,489
Accounts and other receivables	7,209	9,327
Pledges receivable, net	373,322	370,119
Total non-current assets	<u>2,551,451</u>	<u>2,241,872</u>
Total assets	<u>\$ 3,034,872</u>	<u>\$ 2,673,263</u>
Liabilities		
Current liabilities		
Accounts and grants payable	8,376	6,382
Annuities payable	2,253	2,126
Liabilities to life beneficiaries	1,787	1,726
Amounts held for others	259,386	244,037
Total current liabilities	<u>271,802</u>	<u>254,271</u>
Non-current liabilities		
Annuities payable	16,251	14,570
Liabilities to life beneficiaries	16,198	14,860
Total non-current liabilities	<u>32,449</u>	<u>29,430</u>
Total liabilities	<u>\$ 304,251</u>	<u>\$ 283,701</u>
Deferred Inflow of Resources		
Deferred inflow - gift receipts	\$ 1,723	\$ 1,460
Total deferred inflow of resources	<u>\$ 1,723</u>	<u>\$ 1,460</u>

See accompanying notes to financial statements

THE UCLA FOUNDATION

Statements of Net Position (Continued)

June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Net Position		
Net Position:		
Restricted for:		
Non-expendable:		
Endowments	\$ 1,098,820	\$ 1,000,954
Annuity and life income funds	12,661	10,134
Expendable:		
Endowment earnings	269,626	179,884
Annuity and life income funds	22,485	18,638
Funds functioning as endowments	557,636	493,977
Gifts	619,228	626,115
Unrestricted	148,442	58,400
Total net position	\$ <u>2,728,898</u>	\$ <u>2,388,102</u>

THE UCLA FOUNDATION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Operating revenues:		
Contributions	\$ 287,297	\$ 235,119
Total operating revenues	287,297	235,119
Operating expenses:		
Gift fund distributions	243,231	218,358
Gift administration fees	14,612	13,704
Endowment cost recovery	9,448	9,362
UCLA Chancellor's priorities	6,000	6,000
UCLA Investment Company Management Fees	5,025	3,893
General expenditures	796	837
Total operating expenses	279,112	252,154
Operating income (loss)	8,185	(17,035)
Non-operating revenues and expenses:		
Interest, dividends and distributions, net	17,343	14,077
Realized gains (losses) and change in fair value of investments, net	246,288	(77,029)
Change in value of split interest agreements	(1,739)	805
Total non-operating revenues (expenses), net	261,892	(62,147)
Income (loss) before other changes in net position	270,077	(79,182)
Other changes in net position:		
Private gifts of permanent endowments	70,719	70,138
Increase (decrease) in net position	340,796	(9,044)
Net position:		
Beginning of year	2,388,102	2,397,146
End of year	\$ 2,728,898	\$ 2,388,102

THE UCLA FOUNDATION

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Cash flows from operating activities:		
Contributions	\$ 249,953	\$ 192,922
Gift fund distributions and operating expenses	(277,296)	(252,645)
Beneficiary payments, net	(2,423)	(2,302)
Other operating payments, net	(14,837)	-
Net cash used in operating activities	(44,603)	(62,025)
Cash flows from non-capital financing activities:		
Private gifts for endowment purposes	52,464	59,081
Net cash provided by non-capital financing activities	52,464	59,081
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	369,055	371,866
Purchases of investments	(393,702)	(381,818)
Interest, dividends and distributions, net	17,102	13,780
Net cash (used in)/provided by investing activities	(7,545)	3,828
Net increase in cash	316	884
Cash:		
Beginning of year	4,794	3,910
End of year	\$ 5,110	\$ 4,794
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ 8,185	\$ (17,035)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Non-cash gifts	(67,136)	(20,687)
Provision for uncollectible pledges receivable	9,812	(1,215)
Changes in operating assets and liabilities:		
Accounts and other receivables	(653)	749
Pledges receivable, net	17,649	(20,056)
Accounts and grants payable	1,649	(491)
Annuities payable	495	(1,423)
Liabilities to life beneficiaries	(30)	(1,899)
Amount held for others	(14,837)	-
Deferred inflows	263	32
Net cash used in operating activities	\$ (44,603)	\$ (62,025)
Supplemental non-cash activities information:		
Gifts of securities and real property – operating	\$ 67,136	\$ 20,687
Gifts of securities and real property – for endowment purposes	18,255	11,057
Reinvested dividends	—	842

See accompanying notes to financial statements

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(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.

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(b) *Recently Adopted New Accounting Pronouncement*

In March 2016 the GASB issued statement No. 81 *Irrevocable Split-Interest Agreements*, effective for The UCLA Foundation's fiscal year beginning July 1, 2017. This statement establishes standards for accounting and financial reporting of irrevocable split-interest agreements. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts – or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements – in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interest in real estate. This statement requires that a government recognize assets, liabilities and deferred inflows of resources at the inception of the agreement. The impact of this statement on The UCLA Foundation is still being evaluated.

(c) *Cash*

The UCLA Foundation considers all operating demand deposit and money market accounts as cash. At June 30, 2017 and 2016, the carrying amount of The UCLA Foundation's general ledger cash held was approximately \$5.1 million and \$4.8 million, respectively. At June 30, 2017 and 2016, The UCLA Foundation had cash in banks in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits of approximately \$1.7 million and \$2.8 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.

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

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

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 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 2017 spending rate is set at 4.50% of a 12-quarter rolling average market value while the spending rate for fiscal year 2016 was 4.54%. 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. 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.

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

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

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

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

Pooled Income Fund

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

Gifts to the Pooled Fund are commingled for investment and administration purposes. Each donor retains a life income interest in the Pooled Fund for one or more 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 are based on the current sales price for comparable properties.

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(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.

(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 contribution revenue at the date of gift.

For the year ended June 30, 2017 and 2016, 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, 2017 and 2016, of \$259.4 million and \$244.0 million, respectively, represent amounts held by The UCLA Foundation under agency relationships with various support groups and other affiliated entities of UCLA. Such amounts are not assets owned by or contributed to The UCLA Foundation and, accordingly, are recorded as liabilities and not as revenue. As of June 30, 2017, the offsetting assets are reported in investments and include \$36.0 million in the UIP, \$221.6 million in the EIP, and \$1.8 million in various annuity and life income funds. At June 30, 2016, \$35.2 million were invested in the UIP, \$207.1 million in the EIP, and \$1.7 million in various annuity and life income funds.

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(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.

(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 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 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.

(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 UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

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 2017 and 2016. 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.

(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.

(o) Reclassification

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

(3) Investments

The UCLA Foundation holds significant investments in the form of 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.

The following table provides the composition of investments at June 30, 2017 and 2016:

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

	2017	2016
	<i>(in thousands of dollars)</i>	
Equity securities		
Domestic	\$ 11,590	\$ 55,069
Foreign	16,465	15,497
Subtotal equity securities	28,055	70,566
Fixed income securities		
U.S. Government guaranteed		
U.S. Treasury bills	1,430	508
U.S. Treasury notes	31,192	7,140
Subtotal U.S. Treasury	32,622	7,648
U.S. Government backed – asset-backed securities	968	1,202
Subtotal U.S. government guaranteed	33,590	8,850
Other U.S. dollar denominated		
U.S. Agencies – asset-backed securities	9,533	15,585
Corporate – asset-backed securities	35,125	33,002
Corporate structured financial instruments	55	24
Supranational/foreign	2,715	2,878
Subtotal Other U.S. dollar denominated	47,428	51,489
Commingled funds and others		
Commingled funds – absolute return and hedge funds	1,253,489	1,075,512
Commingled funds – balanced funds	5,794	5,090
Commingled funds – U.S. equity funds	18,273	15,239
Commingled funds – non-U.S. equity funds	11,474	9,038
Commingled funds – U.S. bond funds	14,378	12,831
Commingled funds – non-U.S. bond funds	3,772	2,416
Commingled funds – real estate investment trusts	48,106	6,432
Commingled funds – money market funds	560,102	452,377
Commingled funds – private equity	243,366	210,865
Subtotal commingled funds	2,158,754	1,789,800
Investment derivatives	1,988	2,529
Real estate	93,619	90,568
Commodities and other investments	189,473	147,970
Total investments	\$ 2,552,907	\$ 2,161,772

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

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.

(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.

	2017	2016
	<i>(in thousands of dollars)</i>	
Fixed or variable income securities		
U.S. government guaranteed	\$ 33,590	\$ 8,850
Other U.S. dollar denominated		
AAA	496	273
AA	77	-
BBB	878	711
BB	738	597
B	1,684	2,814
CCC or below	19,898	24,023
Not rated	23,657	23,071
Total other U.S. dollar denominated	47,428	51,489
Commingled funds		
U.S. bond funds: Not rated	14,378	12,831
Non-U.S. bond funds: Not rated	3,772	2,416
Money market funds: Not rated	560,102	452,377
Total commingled funds subject to credit risk	578,252	467,624
Investment derivatives		
Not rated	1,988	2,529
Total investment derivatives	1,988	2,529
Total funds subject to credit risk	\$ 661,258	\$ 530,492

(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

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

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 are held in FY17 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.

	2017	2016
Fixed or variable income securities	<i>(effective duration in years)</i>	
U.S. Government		
U.S. Treasury bills	-	.2
U.S. Treasury notes	.7	2.6
U.S. Government backed – asset backed securities	10.3	4.3
Other U.S. dollar denominated		
U.S. agencies – asset-backed securities	12.1	9.8
Corporate - asset-backed securities	2.2	.1
Supranational/foreign	6.9	6.8
Commingled funds:		
U.S. bond funds	4.9	5.3
Non-U.S. bond funds	7.3	7.8
Money market funds	1.5	1.3
Investments highly sensitive to changes in interest rates		
<i>(in thousands of dollars)</i>		
Mortgage backed securities	\$ 34,630	\$ 23,441
Collateralized mortgage obligations	10,498	23,770
Other asset-backed securities	496	2,578

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(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>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
Equity securities		
South Korean Won	\$ 16,356	\$ 14,140
Miscellaneous	<u>109</u>	<u>1,357</u>
Total equity securities subject to foreign currency risk	<u>\$ 16,465</u>	<u>\$ 15,497</u>
Commingled funds		
Various currency denominations		
Non-U.S. equity	\$ 11,474	\$ 9,038
Non-U.S. bond funds	3,772	2,416
Real estate investment trusts	2,951	2,311
Real assets	49,514	33,900
Absolute return	<u>599,353</u>	<u>487,858</u>
Total commingled funds subject to foreign currency risk	<u>\$ 667,064</u>	<u>\$ 535,523</u>
Private Equity		
British Pound	<u>\$ 7,283</u>	<u>\$ -</u>
Total private equity subject to foreign currency risk	<u>\$ 7,283</u>	<u>\$ -</u>
Total exposure to foreign currency risk	<u><u>\$ 690,812</u></u>	<u><u>\$ 551,020</u></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:

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

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 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 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 2017 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, 2017, and June 30, 2016:

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

As of 6/30/2017

(in thousands of dollars)

	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Net Asset Value	Not Levelled
	(Level 1)	(Level 2)	(Level 3)	(NAV)	Total
	(Level 1)	(Level 2)	(Level 3)	(NAV)	Total
Equity securities	17,651		10,404		28,055
Fixed or variable income securities					-
U.S. government guaranteed		33,590			33,590
Other U.S. dollar denominated		47,373	55		47,428
Commingled funds	104,342			2,054,412	2,158,754
Investment derivatives		1,988			1,988
Real Estate			27,491	66,128	93,619
Commodities and other investments	31		35,318	152,973	1,151
Total investments	122,024	82,951	73,268	2,273,513	2,552,907

As of 6/30/2016

(in thousands of dollars)

	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Net Asset Value	Not Levelled
	(Level 1)	(Level 2)	(Level 3)	(NAV)	Total
	(Level 1)	(Level 2)	(Level 3)	(NAV)	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
Total investments	115,705	62,844	71,550	1,910,550	2,161,772

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 for the years ending June 30, 2017, and June 30, 2016.

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

As of 6/30/2017

(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	\$ 1,253,489	\$ -	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 26% of NAV is locked up for 6 months. 39% of NAV is locked up for 1 year and the remaining is locked up for more than one year.
Commingled funds - balanced funds	Investments in external commingled funds that have an asset allocation to equity securities, alternative investments and fixed income instruments	5,736	-	Not Applicable	Requires 10 days written notice	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	551,821	-	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	243,366	142,382	Approximately 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	66,128	36,311	Approximately 10 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	152,973	35,386	Approximately 10 years remaining	Redemptions are not permitted during the life of the fund	Not Applicable
Total		\$ 2,273,513	\$ 214,079			

The table above represents all of The UCLA Foundation's unfunded commitments as of June 30, 2017.

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

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 one 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	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.

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(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 2018.

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 middle price at the close of trading in the market where such options are principally traded.

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2017 and June 30, 2016 respectively, and the changes in the fair value of such investment derivatives for the years then ended are as follows:

	Notional Amount		Classification	Fair Value		Classification	Changes in Fair Value	
	2017	2016		2017	2016		2017	2016
<i>(in thousands of dollars)</i>								
Business-type activities								
Total return swaps equity	\$ 226,752	\$ 179,812	Long-term investments	\$ 1,988	\$ 2,529	Realized gains (losses) and change in fair value of investments, net	\$ 32,340	\$ 2,529
Written options	\$ 50,658	\$ -	Current liabilities Accounts and grants payable	\$ (409)	\$ -	Realized gains (losses) and change in fair value of investments, net	\$ 692	\$ -

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(6) Approved Endowment Payout

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
Investment income, net	\$ 11,685	\$ 9,789
Net accumulated gains and principal	<u>64,113</u>	<u>62,448</u>
	<u>\$ 75,798</u>	<u>\$ 72,237</u>

In addition to the above, The UCLA Foundation allocated payout to affiliated entities and unrestricted funds of \$10.9 million in fiscal year 2017 and \$11 million in fiscal year 2016, bringing the total endowed investment pool approved payout to \$86.7 million in fiscal 2017 and \$83.2 million in fiscal year 2016.

(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.

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, 2017 and June 30, 2016. The EIP represents the majority of The UCLA Foundation's total investments. As of June 30, 2017, in addition to the EIP, total investments also include \$380 million held in the UIP, \$57 million in Annuity and Life Income Funds, \$51 million in separately held special purpose funds, and \$27 million in gifts of real estate. As of June 30, 2016 total investments also include \$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 separately held special purpose funds.

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

**Endowed Investment Pool
Condensed Statement of Net Position**

(in thousands of dollars)

	2017	2016
Assets		
Investments	\$2,037,651	\$1,782,055
Accounts and other receivables	24,054	27,502
Due from pool sponsor	1,490	-
Total assets	\$2,063,195	\$1,809,557
Liabilities		
Due to pool sponsor	-	\$ 5,539
Accounts and other payables	674	340
Total liabilities	\$ 674	\$ 5,879
 Net position as held for all pool participants		
Internal portion	\$1,840,969	\$1,596,603
External portion	221,552	207,075
Total net position	\$2,062,521	\$1,803,678

**Endowed Investment Pool
Condensed Statement of Operations and Changes in Net Position**

(in thousands of dollars)

	2017	2016
Increase/(decrease) in net position from operations		
Revenues		
Interest, dividends and distributions, net	\$ 13,439	\$ 11,408
Expenses		
Endowment cost recovery	(9,497)	(9,403)
Investment company management fees	(4,845)	(3,762)
Custody, taxes, and other	(50)	(79)
Total expenses	(14,392)	(13,244)
Realized gains (losses) and change in fair value of investments, net	269,585	(88,870)
Increase/(decrease) in net position resulting from operations	268,632	(90,706)
Distributions to participants:		
Distributions paid	(86,689)	(83,212)
Share transactions:		
Net share transactions	76,900	113,280
Total increase/(decrease) in net position	258,843	(60,638)
Net position:		
Beginning of year	1,803,678	1,864,316
End of year	\$2,062,521	\$1,803,678

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(8) Pledges Receivable

Pledges receivable consist of the following at June 30:

	2017	2016
	<i>(in thousands of dollars)</i>	
Pledges receivable, gross	\$ 539,694	\$ 589,667
Less		
Allowance for uncollectible pledges	(9,126)	(26,295)
Discount for future payments	(93,105)	(98,448)
Pledges receivable, net	\$ 437,463	\$ 464,924
Current pledges receivable, net	\$ 64,141	\$ 94,805
Non-current pledges receivable, net	373,322	370,119
	\$ 437,463	\$ 464,924

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 \$9.8 million in fiscal year 2017 and a loss provision reversal of \$1.2 million in fiscal year 2016. Loss provisions and loss provision reversals are recorded as adjustments to contribution revenue. In addition, The UCLA Foundation recorded an increase in contribution revenue due to present value adjustments in FY17 of \$5.3 million and a reduction in contribution revenue for present value adjustments in FY16 of \$10.3 million. Pledges due beyond one year have been discounted at an annual rate of 1.2% for pledges received in fiscal year 2017 and 2016. Fifty-nine percent of the pledges receivable, net of discount, are from five donors in fiscal 2017 as compared to fifty-three percent in fiscal year 2016.

(9) Annuity and Life Income Funds

Changes in annuity and life beneficiary liabilities during FY17 and FY 16 are summarized as follows:

(in thousands of dollars)

	Balance at	New	Less: Beneficiary	Adjustments to	Balance at
Liabilities to:	June 30, 2016	Obligations	Payments	Existing	June 30, 2017
				Liabilities	
Annuitants	\$ 16,696	\$ 2,382	\$ (2,202)	\$ 1,628	\$ 18,504
Life Beneficiaries	16,586	990	(1,766)	2,175	17,985
Total	\$ 33,282	\$ 3,372	\$ (3,968)	\$ 3,803	\$ 36,489

	Balance at	New	Less: Beneficiary	Adjustments to	Balance at
Liabilities to:	June 30, 2015	Obligations	Payments	Existing	June 30, 2016
				Liabilities	
Annuitants	\$ 17,127	\$ 755	\$ (2,148)	\$ 962	\$ 16,696
Life Beneficiaries	19,169	355	(2,103)	(835)	16,586
Total	\$ 36,296	\$ 1,110	\$ (4,251)	\$ 127	\$ 33,282

THE UCLA FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(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 the endowment cost recovery fee is calculated as equal to the prior year's fee, adjusted for inflation. The inflation rate adjustment for FY17 was 1.01% and 0.12% for FY16. The gift and endowed cost recovery fees are included in operating expenses in the accompanying financial statements and totaled \$14.6 million and \$9.4 million in 2017 and \$13.7 million and \$9.4 million in 2016, respectively. The amounts due to campus for gift and endowed cost recovery fees as of June 30, 2017 were \$4.2 million and \$3.7 million as of June 30, 2016.

(c) Grants to Campus

The primary purpose of The UCLA Foundation is to raise funds in support of UCLA. In FY17, The UCLA Foundation issued grants to UCLA in the amount of \$245.6 million and \$219.2 million in FY16. 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.