KPMG

UNIVERSITY OF CALIFORNIA IRVINE FOUNDATION

Financial Statements

June 30, 2015

(With Independent Auditors' Report Thereon)

UNIVERSITY OF CALIFORNIA IRVINE FOUNDATION

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
U.C. Irvine Foundation:

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 University of California Irvine Foundation as of June 30, 2015 and the changes in its financial position and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

KPMG LLP

Irvine, California
October 2, 2015

The University of California Irvine Foundation (the Foundation) was established in 1968 to encourage financial support through charitable gifts for the benefit of the University of California, Irvine (UC Irvine). The Foundation is governed by a local board of trustees comprising the campus' closest alumni, friends, and community members. Gifts are also made to the campus through The Regents of the University of California and are not included in these statements.

The following discussion and analysis presents an overview of the financial performance of the Foundation for the fiscal year ended June 30, 2015, with selected comparative information as of and for the year ended June 30, 2014. This discussion and analysis has been prepared by management and should be read in conjunction with the accompanying audited financial statements and notes. The financial statements, notes, and the discussion and analysis were created by management and are the responsibility of management.

Introduction to the Financial Statements

The financial statements of the Foundation for the year ended June 30, 2015 have been prepared in accordance with the Governmental Accounting Standards Board Statements using the economic resources measurement focus and accrual basis of accounting. The financial statements include the statement of net position; the statement of revenue, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements support these statements. All sections must be considered together to obtain a complete understanding of the financial position and changes in financial position of the Foundation.

Statement of Net Position

The statement of net position includes all assets and liabilities of the Foundation, with the difference between the two reported as net position. Assets and liabilities are categorized as current or noncurrent on an accrual basis as of June 30, 2015. This statement also identifies major categories of restrictions on the net position of the Foundation.

Statement of Revenue, Expenses, and Changes in Net Position

The statement of revenue, expenses, and changes in net position presents the revenue earned and expenses incurred by the Foundation during the year ended June 30, 2015. Revenue and expenses on this statement are classified as either operating or nonoperating.

Statement of Cash Flows

The statement of cash flows presents the changes in the Foundation's cash and cash equivalents for the year ended June 30, 2015 summarized by operating, noncapital financing, and investing activities. The statement is prepared using the direct method of cash flows and, therefore, presents gross rather than net amounts for the year's activities.

Analytical Overview

The Foundation's financial position increased during the fiscal year ended June 30, 2015 as a result of a favorable stock market and fund-raising activities. The Foundation's total net position increased approximately $13.7 million to $358.1 million during the year ended June 30, 2015.

The following discussion highlights the key financial aspects of the Foundation's activities:

Condensed Summary of Net Position

		2015	2014
Current assets	$	19,863,722	31,860,768
Other noncurrent assets		340,885,691	314,774,185
Total assets	$	360,749,413	346,634,953
Current liabilities	$	709,949	536,693
Noncurrent liabilities		1,958,502	1,761,400
Total liabilities	$	2,668,451	2,298,093
Net position:			
Net investment in capital assets	$	177,000	177,000
Restricted – nonexpendable		201,164,890	187,943,472
Restricted – expendable		154,724,255	154,662,965
Unrestricted		2,014,817	1,553,423
Total net position	$	358,080,962	344,336,860

Assets

Total current assets decreased approximately $12.0 million to $19.9 million at June 30, 2015. The decrease in current assets was due to a decrease in cash and short-term investments mostly as a result of investing an additional portion of the restricted net position in a longer term investment in order to earn a greater rate of return. Current pledges receivable include pledge payments that are scheduled to be collected during the next 12 months, which increased $0.5 million to $10.5 million at June 30, 2015.

Other noncurrent assets increased approximately $26.1 million to $340.9 million at June 30, 2015. The favorable stock market during the fiscal year resulted in an unrealized gain on long-term investments of approximately $5.4 million and realized gains of approximately $5.2 million. The fund-raising efforts during the fiscal year resulted in approximately $14.6 million in additions to the permanent endowment.

Liabilities

Current liabilities consist of payables related to endowment investments and the current portion of liabilities to life beneficiaries. The noncurrent liabilities are liabilities to life beneficiaries on trusts beyond one year. Total liabilities increased due to the increase in the life expectancy of the income beneficiaries.

Net Position increased by $13.7 million in the current fiscal year, as reflected below:

Condensed Summary of Revenue, Expenses, and Changes in Net Position

		2015	2014
Operating revenue:			
Contributions, net	$	28,993,044	33,385,124
Other operating revenue		242,748	178,130
Total operating revenue		29,235,792	33,563,254
Operating expenses:			
Disbursements to University of California, Irvine		45,470,146	47,715,422
Administrative and other operating expenses		1,146,713	2,029,191
Total operating expenses		46,616,859	49,744,613
Operating loss		(17,381,067)	(16,181,359)
Nonoperating income:			
Investment income		6,304,547	3,681,800
Realized/unrealized gains on investments, net		10,544,234	43,693,737
Change in value of life income liabilities		(368,225)	35,538
Total nonoperating income		16,480,556	47,411,075
Income (loss) before contributions for permanent endowments		(900,511)	31,229,716
Additions to permanent endowments		14,644,613	17,796,438
Change in net position		13,744,102	49,026,154
Net position, beginning of year		344,336,860	295,310,706
Net position, end of year	$	358,080,962	344,336,860

Revenue

Operating revenue decreased by $4.3 million to $29.2 million for the year ended June 30, 2015, mainly due to the overall decrease in nonendowment contributions. Additions to permanent endowments also decreased by $3.2 million to $14.6 million for the year ended June 30, 2015.

Operating expenses decreased $3.1 million to $46.6 million for the year ended June 30, 2015. The decrease is due to the disbursements to UC Irvine mostly related to a decrease of $5.8 million in transfers requested by the School of Medicine. That decrease was offset by other schools on campus requesting more transfers compared to prior year.

Nonoperating income decreased $30.9 million to a total nonoperating income of $16.5 million for the year ended June 30, 2015. This decrease is reflective of the relatively tepid financial market performance during the year resulting in unrealized gain on investments of $5.4 million and realized gains of $5.2 million. In the prior year, there were unrealized gain on investments of $32.7 million and realized gains of $11.0 million.

Restricted Resources

Net position of the Foundation includes funds that have legal restrictions on their use. Funds may be expendable for a specific purpose or they may be nonexpendable.

The following table summarizes, which funds are restricted, the type of restriction, and the amount:

		2015	2014
Restricted funds at June 30:			
Nonexpendable:			
Endowments	$	201,148,238	187,908,496
Life income funds		16,652	34,976
Total nonexpendable	$	201,164,890	187,943,472
Expendable:			
Endowments	$	59,712,689	55,341,361
Funds functioning as endowments		75,384,134	65,193,714
Life income funds		1,334,178	1,684,079
Gifts		18,293,254	32,443,811
Total expendable	$	154,724,255	154,662,965

The nonexpendable endowments increased by $13.2 million to $201.2 million as of June 30, 2015 and represent the book value of the endowment. This amount reflects contributions that have been directed by the donor to the permanent endowment.

The expendable endowments increased $4.4 million to $59.7 million for the year ended June 30, 2015. The expendable portion represents the change in market value and funds available for spending.

Funds functioning as endowments are contributions restricted by the donor for various campus departments and the campus departments have designated those contributions as endowment. These funds increased $10.2 million to $75.4 million as of June 30, 2015. This change is primarily due to an $8 million transfer from restricted gift funds to an endowment fund.

The Foundation's spending policy allows for allocation of income equivalent to 4.5% of the moving average market value of the endowment portfolio. This average market value is computed using the previous 36 months of portfolio activity. Income earned in excess of the spending rate may be reinvested in endowment principal. This excess is classified above under expendable endowments.

UNIVERSITY OF CALIFORNIA IRVINE FOUNDATION

Statement of Net Position

June 30, 2015

Assets	
Current assets:	
Cash and cash equivalents	$ 2,176,388
Short-term investments	9,323,672
Current portion of pledges receivable, net of allowance of $2,156,277	8,345,845
Other current assets	17,817
Total current assets	19,863,722
Noncurrent assets:	
Long-term investments	333,534,960
Pledges receivable, net of allowance of $984,232	3,665,221
Investment in capital assets	177,000
Assets held in charitable remainder trusts	3,508,510
Total noncurrent assets	340,885,691
Total assets	360,749,413
Liabilities	
Current liabilities:	
Accounts payable	510,771
Liabilities to life beneficiaries, current portion	199,178
Total current liabilities	709,949
Noncurrent liabilities:	
Liabilities to life beneficiaries, net of current portion	1,958,502
Total liabilities	2,668,451
Net Position	
Net investment in capital assets	177,000
Restricted:	
Nonexpendable:	
Endowments	201,148,238
Life income funds	16,652
Expendable:	
Endowments	59,712,689
Funds functioning as endowments	75,384,134
Life income funds	1,334,178
Gifts	18,293,254
Unrestricted	2,014,817
	$ 358,080,962

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA IRVINE FOUNDATION

Statement of Revenue, Expenses, and Changes in Net Position

Year ended June 30, 2015

Operating revenue:		
Contributions, net	$	28,993,044
Other operating revenue		242,748
Total operating revenue		29,235,792
Operating expenses:		
Disbursements to University of California, Irvine		45,470,146
Administrative and other operating expenses		1,146,713
Total operating expenses		46,616,859
Operating loss before other changes in net position		(17,381,067)
Nonoperating revenue:		
Investment income		6,304,547
Realized/unrealized gains on investments, net		10,544,234
Change in value of annuity and life income liabilities		(368,225)
Total nonoperating revenue		16,480,556
Loss before contributions for permanent endowments		(900,511)
Contributions for permanent endowments		14,644,613
Change in net position		13,744,102
Net position, beginning of year		344,336,860
Net position, end of year	$	358,080,962

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA IRVINE FOUNDATION

Statement of Cash Flows

Year ended June 30, 2015

Cash flows from operating activities:		
Contributions, net	$	26,509,517
Disbursements to University of California, Irvine		(45,470,146)
Payments to beneficiaries		(207,632)
Payments for administrative and other operating expenses		(940,708)
Other receipts		320,684
Net cash used in operating activities		(19,788,285)
Cash flows from noncapital financing activities:		
Contributions for permanent endowment		11,608,358
Net cash provided by noncapital financing activities		11,608,358
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		69,574,820
Purchases of investments		(69,542,866)
Investment income, net of investment expense		6,319,186
Net cash provided by investing activities		6,351,140
Net decrease in cash and cash equivalents		(1,828,787)
Cash and cash equivalents – beginning of year		4,005,175
Cash and cash equivalents – end of year	$	2,176,388
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(17,381,067)
Adjustments necessary to reconcile operating income to net operating activities:		
Change in allowance for uncollectible receivables		1,388,402
Contribution of securities		(3,295,888)
Changes in operating assets and liabilities:		
Pledges receivable		(576,042)
Liabilities to life beneficiaries		(129,695)
Accounts payable		206,005
Net cash used in operating activities	$	(19,788,285)
Supplemental noncash investing activities information:		
Gifts of marketable securities – operating	$	3,295,888
Gifts of marketable securities – endowment		3,036,255

See accompanying notes to financial statements.

(1) Organization

The University of California Irvine Foundation (the Foundation), a California not-for-profit organization, was formed for the purpose of encouraging voluntary gifts, trusts, and bequests for the benefit of the University of California, Irvine (UCI). The Foundation provides financial support for various UCI schools and programs, including research grants, student scholarships, instructional support, equipment purchases, capital improvements, and education.

The Foundation is subject to the policies and procedures of The Regents of the University of California (The Regents) and was established for the benefit of UCI. The Regents established administrative guidelines for the Foundation with regard to the Foundation's ability to conduct operations through its policy on campus foundations. The Regents' policy limits the ability of the Foundation to make certain expenditures and provides a general framework for its operations. The Foundation is considered a component unit of the University of California because it was established solely to support the mission of UCI and, accordingly, is considered a governmental not-for-profit organization subject to reporting under the Governmental Accounting Standards Board (GASB).

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

(b) Cash and Cash Equivalents

Cash and cash equivalents include funds held in demand deposit accounts with financial institutions.

(c) Investments

Investments are reported at fair value. The basis of determining the fair value of investments is the readily determinable sales price or current exchange rate of the investments based on prices or quotations from actively traded markets. In the case of commingled funds, the fair value is determined based on the number of units held in the fund multiplied by the price per unit (net asset value), which is a practical expedient to determining fair value. Private equities are valued as reported by the general partners and fund managers. As private equities 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.

Short-term investments consist of money market accounts. Short-term investments are reported at cost, which approximates fair value. All endowment and trust investments are classified as noncurrent regardless of maturity due to restrictions limiting the Foundation's ability to use these investments.

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(d) Endowments

Endowments are managed in a unitized investment pool. Transactions within each individual endowment in the pool are based on the unit value at the end of the month during which the transaction takes place for withdrawals and additions.

It is the goal of the Foundation that the total return from endowment investments should be adequate to meet the following objectives:

- Preserve investment capital and its purchasing power.
- Generate sufficient resources to meet spending needs (payout).
- Attain reasonable capital appreciation through prudent acceptance of risk to enhance the future purchasing power of the investment capital.

In February 2008, the State of California passed the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In prior years, the Foundation was governed by the Uniform Management of Institutional Funds Act (UMIFA). Both acts provide statutory guidance for management, investment, and expenditures of endowed funds. UMIFA distinguished between the original gift, income, and capital appreciation and limited spending or endowment payout to capital appreciation and income, and required reinvestment of the portion of payout derived from accumulated gains for permanent endowment funds with a fair value that was less than the historic gift value, referred to as "underwater." UPMIFA eliminates these distinctions, and requires no reinvestment on underwater funds.

As of June 30, 2015, the Foundation held real estate contributed as part of an endowment fund. The asset is reported at fair value based on current appraisal values.

(e) Assets Held in Charitable Remainder Trusts and Equity in Assets of Charitable Remainder Trusts

The Foundation has been designated as the trustee or cotrustee for several charitable remainder trusts (the Trusts). The Trusts are established by donors to provide income, generally for life, to designated beneficiaries. Each year, beneficiaries receive payments based on a percentage of the Trust's fair value (standard unitrust) or the net income (net income unitrust) as specified in the trust agreement. Upon the death of the beneficiaries or termination of the Trusts, as defined, the remaining assets of the Trusts will become contributions to the Foundation, as stipulated in the trust agreements.

The Foundation reports the assets held in charitable reminder trusts at the fair value. A liability is established for the estimated future payments to the donors or other beneficiaries. This liability changes as benefit payments are made to the donors and beneficiaries each year and as life expectancies change. Any fluctuations in the market value of the related trust assets and any income earned on the trust assets affect this liability. These assets are administered by and invested with State Street Global Advisors.

The Trusts are separate legal entities, created under the provisions of the Internal Revenue Code and applicable California state law. The Trusts have a calendar year-end as required under the Tax

(Continued)

Reform Act of 1986 and are exempt from federal and California income taxes on investment income accumulated for future distributions and any net capital gains retained in the Trusts.

In addition to the Trusts described above, the Foundation is designated as a beneficiary pursuant to a number of irrevocable trusts in which they are not the trustee, which values will be recorded in the financial statements upon receipt of the actual contribution.

(f) Pledges Receivable

Pledges are written unconditional promises to make future payments. Pledges receivable, other than endowment pledges, are recognized as contribution revenue in accordance with donor imposed restrictions, if any, in the period pledged as they meet the time requirements specified by GASB Statement No. 33 which requires that promises of certain donations be recognized as receivables and revenue provided they are verifiable, measurable, probable of collection, and all applicable eligibility requirements have been met. Pledge payments extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is accreted and recorded as additional contribution revenue in accordance with donor imposed restrictions, if any. In addition, an allowance for uncollectible pledges is recorded after an aging analysis is performed to determine an appropriate dollar amount. Historically, an allowance of 10% of the noncurrent pledge balance has been used.

Conditional pledges, including all pledges for endowment purposes, which depend on the occurrence of a specified future or uncertain event, such as matching gifts from other donors, are recognized when the conditions are substantially met.

(g) Net Position

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, net position and revenue, expenses, and gains and losses are classified and reported as follows, based on the existence or absence of donor-imposed restrictions:

Net investment in capital assets: Capital assets, net of accumulated depreciation and amortization.

Restricted – nonexpendable: Net assets subject to externally imposed conditions that the Foundation retain them in perpetuity. Net assets in this category consist of endowments held by the Foundation and life income funds that will become endowments at the request of the donor when they are deceased.

Restricted – expendable: Net assets subject to externally imposed conditions that can be fulfilled by the actions of the Foundation or by the passage of time. Endowment represents income earned in excess of the spending rate that has been reinvested into the permanent endowment principal. Funds functioning as endowment are contributions restricted by the donor for various campus departments and the campus departments have designated those contributions as endowments. Life income funds that have been designated by the donor for specific purposes when they are deceased.

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Unrestricted: All other categories of net assets. In addition, unrestricted net assets may be designated for use by management of the Foundation.

The Foundation has adopted a policy of utilizing restricted – expendable funds, when available, prior to unrestricted funds.

(h) Administrative and Other Operating Expenses

The board of trustees of the Foundation has established a policy whereby the Foundation's endowment accounts may be charged an administrative fee to reimburse the Foundation for operating expenses. During the year ended June 30, 2015, the endowment accounts were charged an administrative fee of 0.5% of the market value. In addition, UCI charges a onetime cost recovery fee of 5% on all gifts to cover UCI-wide fund-raising activities.

(i) Classification of Current and Noncurrent Assets and Liabilities

The Foundation considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net position date. Liabilities that reasonably can be expected, as part of normal business operations, to be liquidated within 12 months of the statement of net position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

(j) Classification of Revenue and Expenses

The Foundation considers contributions to be operating revenue, as fund-raising is the primary activity of the Foundation. Nonoperating revenue consists of investment income, changes in the fair value of investments, and changes in the value of life income liabilities. Operating expenses consist primarily of disbursements to UCI and administrative expenses.

(k) Disbursements to UCI

The primary purpose of the Foundation is to provide funds for the support of UCI. During the year ended June 30, 2015, the Foundation transferred amounts to the campus as follows:

School of Medicine	$	16,123,027
University Advancement		5,415,292
Henry Samueli School of Engineering		5,273,489
Non-Academic units		3,906,422
Paul Merage School of Business		3,479,204
School of Law		2,105,974
Donald Bren School of Information and Computer Science		1,738,994
Claire Trevor School of the Arts		1,219,336
Office of Research		1,033,364
Athletics		884,620
Physical Sciences		842,851
Biological Sciences		740,973
Social Ecology		674,479
Social Science		628,886
Humanities		571,062
UCI Libraries		331,165
UCI Medical Center		234,204
School of Education		156,324
Center of Neurology of Learning and Memory		56,450
Program in Nursing Science		51,309
Department of Pharmaceutical Science		2,721
	$	45,470,146

(l) Income Taxes

The Foundation is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which it is granted exemption. 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.

(m) Use of Estimates

The financial statements are prepared in accordance with U.S. generally accepted accounting principles. These principles require 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 revenue and expenses during the reporting periods. Actual results could differ from those estimates.

(3) Cash and Cash Equivalents

The Foundation manages a substantial amount of its cash through The Regent's Short-Term Investment Pool (STIP); other cash intended to meet operating needs is maintained in demand deposit accounts. All cash balances are minimized by sweeping available balances into investment accounts on an as-needed basis.

At June 30, 2015, the carrying amount of the Foundation's cash and cash equivalent deposits, held in nationally recognized banking institutions, was $2,126,433. Bank balances of $2,200,342 at June 30, 2015, are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank account.

The Foundation does not have any exposure to foreign currency risk in demand deposit accounts.

(4) Investments

The composition of investments at June 30, 2015 is as follows:

Equity securities	$	24,747,111
Commingled funds:		
Absolute return funds		14,122,263
Balanced funds (General Endowment Pool)		130,376,949
U.S. equity funds		21,200,400
Non-U.S. equity funds		65,708,994
U.S. bond funds		24,766,265
Non-U.S. bond funds		4,032,335
Money market funds (Short-Term Investment Pool)		8,852,237
Total commingled funds		269,059,443
Private equity		21,834,343
Real estate		4,234,034
Limited partnerships		22,947,560
Other		36,141
Total investments		342,858,632
Less current portion		(9,323,672)
Total noncurrent investments	$	333,534,960

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the Foundation's investments are reported by investment type at market value in the composition of investments above. GASB 40 also requires the disclosure of various types of investment risks based on the type of investment, as well as stated policies adopted by the Foundation to manage those risks.

The board of trustees of the Foundation, as the governing board, is responsible for oversight of the Foundation's investments. Pursuant to The Regents' policies on campus foundations, the board of trustees for its campus foundation may determine that all or a portion of its investments will be managed by the

Treasurer of The Regents. Asset allocation guidelines are provided to the Foundation by the Investment Committee of The Regents.

The Foundation holds significant investments in the form of fixed-income securities in the U.S. government, and fixed income and equity securities in the utilities, oil and gas, financial services, consumer products and services, technology, healthcare, transportation, and energy industries. These funds are classified as part of the commingled funds. The investment guidelines also permit alternative investments in partnerships where the Foundation is a limited partner relying upon the expertise of experienced general partners. All limited partnerships in which the Foundation invests are subject to annual audits.

The STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. Cash to provide for transfers to campus is invested in the STIP. The available cash in the endowment investment pools awaiting investment is also invested in the STIP.

Investments authorized by The Regents for the STIP include fixed-income securities with a maximum maturity of five and one-half years. In addition, The Regents have also authorized loans, primarily to faculty members residing in California, under the University's Mortgage Origination Program with terms up to 40 years.

The General Endowment Pool (GEP) is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. The GEP is a balanced portfolio and is classified as commingled funds.

Investments authorized by The Regents for the GEP and other investment pools include equity securities, fixed-income securities, and certain other asset classes. The equity portion of the investment portfolios may include both domestic and foreign common and preferred stocks, actively managed and passive (index) strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-outs, and international funds. The Regents' investment portfolios may include certain foreign currency-denominated equity securities. The fixed-income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed-income investment guidelines permit the use of futures and options on fixed-income instruments in the ongoing management of the portfolios. Derivative contracts are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. Real estate investments are authorized for the GEP. Absolute return strategies, incorporating short sales, plus derivative or option positions to implement or hedge an investment position are also authorized for the GEP.

The Absolute Return unitized program provides diversification benefits by offering returns that have low correlation to the performance of other asset classes. Investments authorized by The Regents for the Absolute Return portfolio include funds that invest primarily in Long/Short strategies (including U.S., dedicated Non-U.S., short bias, and global equities), Relative Value strategies (including equity market neutral, convertible bond arbitrage, and fixed income), Event Driven strategies (including distressed securities, special situations, capital structure arbitrage, relative value credit, and risk arbitrage strategies), and Opportunistic strategies (including macro and emerging markets).

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The Foundation's investments in pools managed by The Regents are classified by investment type purposes as commingled balanced funds, commingled money market funds, commingled absolute return, private equity, or real estate depending on whether they are invested in the GEP, STIP, Absolute Return Unitized Program, private equity, or real estate, respectively.

Of the $342.9 million of total investments, the portion of investments included in endowments is as follows:

Restricted:		
Nonexpendable:		
Endowments		201,148,238
Life income funds		16,652
Total nonexpendable		201,164,890
Expendable:		
Endowments		59,712,689
Funds functioning as endowments		75,384,134
Total expendable		135,096,823
Total endowments	$	336,261,713

The components of realized/unrealized gains and losses on investments, net for the year ended June 30, 2015:

Net realized gain on sale of investments	$	5,180,993
Net unrealized appreciation on investments held at year-end		5,363,241
Unrealized/realized gains on investments, net	$	10,544,234

(a) Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed-income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates. The fixed-income securities are part of the commingled funds. The Foundation has established investment policies to provide the basis for the management of a prudent investment program appropriate to the particular fund type.

(b) 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 circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance in the rating agency's opinion that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

The Foundation's investment in the Regents' STIP, which is considered to be an investment in an external investment pool and are "unrated." The investment guidelines for STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk-adjusted return over its benchmark (the benchmark for STIP is the two-year Treasury note). No more than 5% of the total fair value of the STIP portfolio may be invested in securities rated below investment grade (BB, BA, or lower). The average credit quality of the STIP must be A or better, and commercial paper must be rated A-1, P-1, or F-1.

The Regents recognize that credit risk is appropriate in balanced investment pools such as GEP, by virtue of the benchmark chosen for the fixed-income portion of those pools. That benchmark, the Citigroup Large Pension Fund Index (LPF) comprises of approximately 30% high-grade corporate bonds, all of which carry some degree of credit risk. Credit risk in the GEP is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10% of the fair value of fixed income may be invested in issues with a credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

The credit risk profile for fixed-income securities in commingled funds at June 30, 2015 is as follows:

Commingled funds:		
U.S. bond funds – not rated	$	24,766,265
Non-U.S. bond funds – not rated		4,032,335
Money market funds – not rated		8,852,237
Total commingled funds	$	37,650,837

(c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the Foundation's investments may not be recovered.

The Foundation Board has chosen to primarily use the various pooled investment vehicles managed by The Regents' Treasurer as its core investments for the endowment and expendable funds, and for its trusts. These pools are considered to be investments in external pools and are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. Similarly, the investment accounts held at State Street Global Advisors are also externally managed pools, and the assets are held in custody or trust and would not be available to State Street's creditors because they are excluded from the assets of the custodian.

It is the policy of the Foundation that all other direct investments made by the Foundation are held in custodial accounts, and the securities are registered solely in the name of the Foundation. All investments are transacted with nationally reputable brokerage firms, offering protection by the Securities Investor Protection Corporation.

The Foundation minimizes cash balances by sweeping available balances into investment accounts on a regular basis. The majority of the cash balance not invested is maintained in The Regents' STIP fund. The STIP fund is managed by the Treasurer of The Regents. The Regents are responsible for managing the University's investments and establishing policy, which is carried out by the Treasurer. STIP in the cash equivalent category is considered to be an external investment pool and, therefore, is not subject to deposit custodial credit risk. Remaining cash is maintained in accounts that are established as segregated trusts, protected against any creditors of the bank, and in money market mutual funds. Although they are not insured and are uncollateralized, these accounts are held in the name of the Foundation. Accounts may also be maintained at FDIC-insured banking institutions up to the insured level. There is no custodial credit risk or foreign currency risk associated with balances maintained at the banks' trust departments and investment in the STIP. The Foundation's policy is to limit all cash accounts to be 1) in separate custodial trust accounts and where the Foundation's assets are not available to the creditors of the bank, 2) in an agency cash sweep account with the University, or 3) at a credit card processor. A certain portion of the balance may occasionally be exposed to custodial risk due to unforeseen dividends and gifts deposited at fiscal year-end, but are rectified as soon as possible.

There is minimal custodial credit risk for fixed-income securities at June 30, 2015.

(d) Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

The U.S. and non-U.S. equity portions of The Regents and the Foundation portfolios may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is exactly equal to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, The Regents consider that passive management results in an absence of concentration of credit risk. For the portion managed actively, portfolio guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class in the aggregate will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters.

Investment guidelines addressing concentration of credit risk related to the fixed-income portion of The Regents portfolios include a limit of no more than 5% of the portfolio's fair value to be invested in any single issuer (except for securities issued by the U.S. Treasury or its agencies). These same guidelines apply to the STIP.

The Foundation's investment policy includes a limit of no more than 5% of the portfolio's assets to be invested in any single issuer. At June 30, 2015, the Foundation did not hold a single investment that was greater than 5% of the portfolio.

(e) Interest Rate Risk

Interest rate risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1% point) change in the level of interest rates, rather than a measure of time.

Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the maturity structure of the liabilities, that is, the liquidity demands of the investors. The nature and maturity of individual securities in the STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

Portfolio guidelines for the fixed-income portion of GEP limit weighted average effective duration to plus or minus 20% of the effective duration of the benchmark (Citigroup Large Pension Fund). This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark.

The effective duration for fixed-income securities held in commingled funds at June 30, 2015 is as follows:

		Fair value June 30, 2015	Average maturity
Commingled funds – U.S. bond funds	$	24,766,265	3.8
Commingled funds – UC STIP		8,852,237	1.7
Commingled funds – Non-U.S. bond funds		4,032,335	6.8

(f) Foreign Currency Risk

Foreign currency risk is the possibility that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect a deposit or investment's fair value. The Regent's strategic asset allocation policy for GEP includes an allocation to non-U.S. equities. These equity investments are not hedged; therefore, foreign currency risk is an essential part of the investment strategy. Their portfolio guidelines for fixed-income securities also allow exposure to non-U.S. dollar-denominated bonds up to 10% of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the investment policies, such instruments are not permitted for speculative use or to create leverage.

At June 30, 2015, the U.S. dollar balances organized by currency denominations and investment type are as follows:

Commingled funds:		
Various currency denominations:		
Balanced funds	$	30,899,336
Non-U.S. bond funds		2,778,279
Total exposure to foreign currency risk	$	33,677,615

(g) Alternative Investment Risks

Alternative investments include ownership interests in a wide variety of partnership and fund structures that may be domestic, offshore, or foreign. Generally, there is little or no regulation of these investments by the Securities and Exchange Commission or U.S. state attorneys general. These investments employ a wide variety of strategies including absolute return, hedge, venture capital, private equity, and other strategies. Investments in this category may employ leverage to enhance the investment return. Underlying investments can include financial assets such as marketable securities, nonmarketable securities, derivatives, and synthetic and structured instruments; real assets; tangible and intangible assets; and other funds and partnerships. Generally, these investments do not have a ready market or may not be traded without approval of the general partner or fund management.

(5) Pledges Receivable

Pledges receivable at June 30, 2015 are as follows:

Pledges receivable:		
For operations	$	10,704,565
For capital projects		4,591,248
Total pledges receivable	$	15,295,813

These pledges are expected to be collected in future years, as follows:

Payments through June 30:		
2016	$	10,502,122
2017		1,529,458
2018		1,629,233
2019		390,000
2020		345,000
2021–2031		900,000
		15,295,813
Less amounts representing discounted cash flows	$	(144,238)
Present value of pledges receivable		15,151,575
Less of allowance for uncollectible pledges		(3,140,509)
	$	12,011,066

Pledges from the top five donors represent 39% of the pledge receivables at June 30, 2015.
Pledges receivable from Foundation Trustees are $410,000, or 3%, at June 30, 2015.

The Foundation discounts the noncurrent portion of pledges receivable when the contribution is initially recognized and does not revise the rate subsequently. The rate is determined by the current rate of the short-term investment pool, ranging from 1.2% to 5%. An allowance for potentially uncollectible pledges of $3,140,509 was recorded as of June 30, 2015.

(6) Liabilities to Life Beneficiaries

Changes in liabilities to life beneficiaries during the current fiscal year are summarized as follows:

		Balance at June 30, 2014	Additions	Decreases	Balance at June 30, 2015	Current portion
Liabilities to life beneficiaries	$	1,993,327	371,985	(207,632)	2,157,680	199,178

(7) Related-Party Transactions

The Foundation has a board of trustees, and designated officers; however, the Foundation does not have any employees. All functions and activities are conducted by employees of the University. The University employees serving Foundation functions are covered by the Regents pension plan and postretirement health care plan. All of the Foundation’s office space is provided by the University.

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Per UC Irvine campus policies, the Foundation remits a gift fee of 5% on each gift, as well as the short-term interest earnings on its expendable gifts to the campus. These resources help support the administrative costs of the campus and in particular those related to advancement. In addition, per Foundation policy, as permitted by law, a noninvestment endowment cost recovery fee is assessed annually on the endowment (and taken from payout) to offset campus costs of administering the endowment. The gift fee, interest earnings, and endowment cost recovery fees are reflected as disbursements to UCI on the statement of revenue, expenses, and changes in net position. The same or similar policies for the gift fee, short-term, interest earnings assessments, and endowment cost recovery fees are in place at all University of California campus foundation and for the Regents' gift and endowed funds.

UCI pays vendors on behalf of the Foundation, which totaled approximately $0.6 million and is included in the accompanying statements of revenue, expenses, and changes in net position.

(8) Commitments

The Foundation's board of directors has approved alternative investment commitments of approximately $10.7 million as of June 30, 2015.