UC Riverside Foundation

Financial Statements
June 30, 2016 and 2015

UC Riverside Foundation
Index
June 30, 2016 and 2015

Page(s)

Report of Independent Auditors

To the Board of Trustees of the
U.C. Riverside Foundation

We have audited the accompanying financial statements of the U.C. Riverside Foundation ("The Foundation"), a component unit of the University of California, which comprise the statement of net position as of June 30, 2016, and the related statement of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP, 601 South Figueroa Street, Los Angeles, California 90017
T: (213) 356 6000, F: (813) 637 4444, www.pwc.com/us

Emphasis of Matter

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

Other Matters

2015 Financial Statements

The financial statements of the Foundation as of June 30, 2015 and for the year then ended, prior to the retrospective application of the change in presentation of certain fair value hierarchy disclosures related to investments, as described in Note 4, were audited by other auditors whose report dated October 2, 2015 expressed an unmodified opinion on those financial statements.

We also have audited the adjustments to retrospectively apply the change in presentation of certain fair value hierarchy disclosures related to investments, as described in Note 4. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the Foundation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements taken as a whole.

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 7 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

Los Angeles, CA

September 29, 2016

UC Riverside Foundation
Management's Discussion and Analysis
(Unaudited)
June 30, 2016 and 2015

The following section of the annual financial report of the UC Riverside Foundation (“the Foundation”) includes an overview and analysis of the Foundation’s financial position and activities for the years ended June 30, 2016 and 2015. This discussion and analysis, as well as the basic financial statements, which it accompanies, are the responsibility of the management of the Foundation.

Introduction to the Basic Financial Statements

This annual report consists of a series of financial statements prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board using the economic resources measurement focus and the accrual basis of accounting. The basic financial statements include statements of net position; statements of revenue, expenses, and changes in net position; and statements of cash flows. Notes to the basic 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.

Statements of Net Position

The statements of net position include 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, as of June 30, 2016 and 2015. These statements also identify major categories of restrictions on the net position of the Foundation. The Foundation’s net position (the difference between assets and liabilities) is one indicator of the Foundation’s financial health, when considered in combination with other nonfinancial information.

Statements of Revenue, Expenses, and Changes in Net Position

The statements of revenue, expenses, and changes in net position present the revenue earned and expenses incurred by the Foundation during the years ended June 30, 2016 and 2015, on an accrual basis. Revenue and expenses on these statements are classified as operating or nonoperating. Incoming gifts and grants made to the campus are reported as operating revenue and expense, respectively, and investment results are reported as nonoperating income or loss.

Statements of Cash Flows

The statements of cash flows present the changes in the Foundation’s cash for the years ended June 30, 2016 and 2015, summarized by operating, noncapital financing, and investing activities. The statements are prepared using the direct method of cash flows and, therefore, present gross rather than net amounts for each year’s activities.

Financial Highlights

The following discussion highlights management’s understanding of the key financial aspects of the Foundation’s financial condition and activities:

During fiscal year 2016, the Foundation’s net position, which represents the excess of total assets over liabilities, decreased by $2.0 million. This is compared to a decrease in net position during fiscal year 2015 of $3.9 million and an increase during fiscal year 2014 of $22.6 million. The primary factors for the decrease in net position during fiscal year 2016 were cyclical changes in financial market conditions and returns on investments. The Foundation was invested primarily in marketable equity and fixed income funds and equity securities. In 2016, as compared to 2015, marketable U.S. equity and international equity funds and securities saw a decline in returns.

During 2016, overall contributions to the Foundation increased by $8.0 million over that of fiscal year 2015. This was due to an increase in contributions to permanent endowments and pledges. Fiscal year 2015 saw a decrease in contributions over fiscal 2014 due to a decrease in contributions to permanent endowments and outright contributions.

The financial markets over the past three fiscal years have fluctuated significantly. Nonoperating losses in fiscal year 2016 were $7.0 million as compared to nonoperating income of $650,000 in 2015 and $20.9 million in 2014. This change was primarily due to the decline of returns on marketable U.S. and international equity funds and securities.

The Foundation expects fluctuations in contribution revenue, additions to permanent endowments and investment results from year to year. The Foundation manages the endowment portfolio in accordance with established financial, investment, and spending objectives. Significant contributions, including bequests, are periodically received from donors as a result of relationships cultivated over many years. The timing of these contributions is not entirely predictable, and often will correlate with a campus initiative.

Condensed Schedule of Net Position

	June 30		
	2016	**2015**	**2014**
Assets			
Current assets	$ 10,571,162	$ 7,130,554	$ 10,461,550
Noncurrent assets	132,198,948	137,670,758	138,129,589
Total assets	$ 142,770,110	$ 144,801,312	$ 148,591,139
Liabilities			
Current liabilities	$ 1,740,096	$ 1,517,579	$ 1,277,517
Noncurrent liabilities	1,516,357	1,726,513	1,822,344
Total liabilities	$ 3,256,453	$ 3,244,092	$ 3,099,861
Net position			
Restricted			
Nonexpendable	$ 91,380,216	$ 84,538,057	$ 81,360,758
Expendable	48,033,872	56,920,823	63,691,258
Unrestricted	99,569	98,340	439,262
Total net position	$ 139,513,657	$141,557,220	$145,491,278

Assets

Total current assets increased by $3.4 million during the fiscal year ended June 30, 2016, and decreased $3.3 million during the year ended June 30, 2015. The increase in current assets during year 2016 was primarily due to an increase of cash and cash equivalents and pledges receivable. The decrease in current assets during year 2015 was primarily due to a decrease in cash and cash equivalents and pledges receivable.

Total noncurrent assets decreased by $5.5 million during the fiscal year ended June 30, 2016, and $459,000 during fiscal year June 30, 2015. The decrease in noncurrent assets during year 2016 was primarily attributable to endowment investment returns, a decrease in investments held in charitable remainder trusts, a decrease in the fair value of real estate held in and for endowment funds, offset by an increase in pledges receivable. The decrease in noncurrent assets during year 2015 was primarily attributable to endowment investment returns, a decrease in investments held in charitable remainder trusts, a decrease in pledges receivable, offset by an increase in the fair value of real estate held in and for endowment funds.

Liabilities

Current liabilities represent accrued Foundation administrative expenses, reimbursements due to the University of California, Riverside from the Foundation for expenses, and liabilities to life beneficiaries on trusts in the coming year. The noncurrent liabilities are and liabilities to life beneficiaries on trusts beyond one year.

Current liabilities increased by $223,000 and noncurrent liabilities decreased by $210,000 in fiscal year 2016, due to an increase in accrued expenses offset by a decrease in liabilities to life beneficiaries at fiscal year ended June 30, 2016.

Current liabilities increased by $240,000 and noncurrent liabilities decreased by $96,000 in fiscal year 2015, due to an increase in accrued expenses offset by a decrease in liabilities to life beneficiaries at fiscal year ended June 30, 2015.

Restricted Net Position

Net position of the Foundation includes funds that have donor 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:

Summary of Restricted Net Position

	June 30		
	2016	**2015**	**2014**
Nonexpendable			
Endowments	$ 89,040,988	$ 82,059,764	$ 78,250,087
Annuities and life income funds	2,339,228	2,478,293	3,110,671
Total nonexpendable	$ 91,380,216	$ 84,538,057	$ 81,360,758
Expendable			
Endowment income and appreciation	$ 31,859,109	$ 41,718,499	$ 44,978,216
Annuities and life income funds	119,603	125,074	117,537
Funds functioning as endowments	8,901,204	9,488,157	9,546,918
Gifts	7,153,956	5,589,093	9,048,587
Total expendable	$ 48,033,872	$ 56,920,823	$ 63,691,258

Net position decreased by $2.0 million in fiscal year 2016 and net position decreased by $3.9 million in fiscal year 2015, as reflected below:

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

	June 30		
	2016	**2015**	**2014**
Operating revenue	$ 5,575,720	$ 2,682,532	$ 4,155,905
Operating expenses	9,235,159	10,850,932	8,157,377
Operating loss	(3,659,439)	(8,168,400)	(4,001,472)
Nonoperating income (losses)	(7,047,511)	650,066	20,982,791
Contributions to permanent endowments	8,663,387	3,584,276	5,646,255
Change in net position	(2,043,563)	(3,934,058)	22,627,574
Net position			
Beginning of year	141,557,220	145,491,278	122,863,704
End of year	$139,513,657	$141,557,220	$145,491,278

Revenue and Expense

Revenue from contributions increased $2.9 million from fiscal year 2015 to 2016. This increase was mainly due an increase in pledge and outright contributions. Contributions to endowments increased this year compared to fiscal year 2015 by $5.1 million. This was primarily due to the receipt of several generous outright contributions in 2016 totaling $6.0 million.

Operating expense consists primarily of grants made to UC Riverside of expendable contributions and accumulated endowed payout for the many purposes intended by the donors. The timing of grants to the campus lags the timing of the incoming contribution revenue and endowed payout. In addition, endowed payout is not recognized as operating revenue, but operating expense upon the transfer of payout to the campus. Due to these factors, and similar to fiscal years 2015 and 2014, in fiscal year 2016 grants made to the campus exceeded recognized contribution revenue, resulting in an operating loss.

Nonoperating income decreased by $7.7 million in comparison with the prior year substantially due to the change in investment performance and a decrease in investment income. The Foundation had net investment income of $3.0 million and net depreciation in the fair value of investments and real estate of approximately $10.4 for the year ended June 30, 2016.

Revenue from contributions decreased $1.4 million from fiscal year 2014 to 2015. The decrease was mainly due to the write-down of $915,000 of pledges receivable as a result of changes in economic position of several donors and a decrease in outright contributions. Contributions to endowments decreased in 2015 compared to fiscal year 2014 by $2.1 million. This was primarily due to the receipt of several generous bequests in 2014 totaling $3.7 million.

Nonoperating income decreased by $20.3 million in comparison with the prior year substantially due to realized gains on sale of investments and investment performance. The Foundation had net investment income of $4.1 million and net depreciation in the fair value of investments and real estate of approximately $4.2 million for the year ended June 30, 2015.

Factors Impacting Future Periods

Factors that can significantly impact future periods include the state of the overall economy and the financial markets. Both factors impact charitable giving and the value of investments. The board of trustees of the Foundation monitors the status of the economy, its impact on overall giving, pledges receivable, and the investment pools.

Given the significant declines in support from the state of California over the last decade to the University of California, private support is an increasingly important resource to the University of California, Riverside (UC Riverside). The Foundation anticipates a higher rate of use of Foundation held funds in the future, in the form of grants to the campus, as a result of decreased resources provided by the state.

Management is not aware of any factors within management's control that would have a significant impact on future periods.

UC Riverside Foundation
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 9,078,179	$ 6,750,954
Pledges receivable, net	1,492,983	379,600
Total current assets	10,571,162	7,130,554
Noncurrent assets		
Long-term investments	123,854,802	129,112,957
Investments held in unitrusts and charitable remainder annuity trusts	4,399,798	4,805,238
Pledges receivable, net of current portion	794,348	407,563
Real estate held in endowment funds	3,150,000	3,345,000
Total noncurrent assets	132,198,948	137,670,758
Total assets	$ 142,770,110	$ 144,801,312
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 1,315,485	$ 1,042,220
Liabilities to life beneficiaries	424,611	475,359
Total current liabilities	1,740,096	1,517,579
Noncurrent liabilities		
Liabilities to life beneficiaries	1,516,357	1,726,513
Total liabilities	$ 3,256,453	$ 3,244,092
Net position		
Restricted		
Nonexpendable		
Endowments	$ 89,040,988	$ 82,059,764
Annuity and life income funds	2,339,228	2,478,293
Expendable		
Endowment income and appreciation	31,859,109	41,718,499
Annuity and life income funds	119,603	125,074
Funds functioning as endowments for specific departments	8,901,204	9,488,157
Gifts	7,153,956	5,589,093
Unrestricted	99,569	98,340
Total net position	$ 139,513,657	$141,557,220

The accompanying notes are an integral part of these financial statements.

UC Riverside Foundation
Statements of Revenue, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenue		
Contributions and bequests, net	$ 5,530,882	$ 2,603,077
Other operating revenue	44,838	79,455
Total operating revenue	5,575,720	2,682,532
Operating expenses		
Grants to campus	9,116,388	10,525,220
Administrative and other operating expenses	118,771	325,712
Total operating expenses	9,235,159	10,850,932
Operating loss	(3,659,439)	(8,168,400)
Nonoperating (loss) income		
Investment income, net	3,019,294	4,090,936
Realized/unrealized gains (losses) on investments and real estate, net	(9,921,567)	(3,074,101)
Change in fair value of annuity and life income liabilities	(144,536)	(360,862)
Other nonoperating loss, net	(702)	(5,907)
Total nonoperating (loss) income, net	(7,047,511)	650,066
Income before contributions to permanent endowments	(10,706,950)	(7,518,334)
Other changes in net position		
Contributions to permanent endowments	8,663,387	3,584,276
Changes in net position	(2,043,563)	(3,934,058)
Net position		
Beginning of year	141,557,220	145,491,278
End of year	$ 139,513,657	$141,557,220

The accompanying notes are an integral part of these financial statements.

UC Riverside Foundation
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Receipts from contributions	$ 4,029,469	$ 4,818,514
Payments to campus	(8,753,866)	(9,578,194)
Payments to beneficiaries	(449,985)	(501,406)
Payments for administrative or operating expenses	(206,091)	(896,306)
Other receipts	161,708	275,518
Net cash used in operating activities	(5,218,765)	(5,881,874)
Cash flows from noncapital financing activity		
Contributions to permanent endowments	8,496,750	3,404,862
Cash flows from investing activities		
Proceeds from sales and maturities of investments	123,866,561	94,318,402
Purchases of investments	(128,159,424)	(97,777,727)
Proceeds from sales of contributed assets	179,264	564,325
Investment income, net of investment expense	3,162,839	3,928,059
Net cash (used in) provided by investing activities	(950,760)	1,033,059
Net change in cash and cash equivalents	2,327,225	(1,443,953)
Cash and cash equivalents		
Beginning of year	6,750,954	8,194,907
End of year	$ 9,078,179	$ 6,750,954
Reconciliation of operating loss income to net cash used in operating activities		
Operating loss	$ (3,659,439)	$ (8,168,400)
Adjustments to reconcile operating loss to net cash used in operating activities		
Noncash gifts	(13,330)	(72,325)
Changes in operating assets and liabilities		
Pledges receivable, net	(1,500,168)	2,343,925
Other assets	14,035	23,228
Accounts payable	273,265	297,028
Liabilities to life beneficiaries	(333,128)	(305,330)
Net cash used in operating activities	$ (5,218,765)	$ (5,881,874)
Supplemental noncash activities information		
Gifts of marketable securities – operating	$ 13,330	$ 72,325
Gifts of marketable securities – endowment	166,637	179,414

The accompanying notes are an integral part of these financial statements.

1. Organization

The UC Riverside Foundation ("the Foundation"), is governed by an independent board of trustees, the membership of which includes the Chancellor of the University. It is considered a governmental not-for-profit organization, subject to reporting under Governmental Accounting Standards Board (GASB). It was formed in December 1974 for the purpose of supporting education, research and public functions, and programs of the Riverside campus of the University of California (the University). Upon dissolution, liquidation, or winding up of the Foundation, the assets remaining after all debts have been satisfied, shall be distributed, transferred, conveyed, delivered, and paid over to the Regents of the University of California (The Regents) for the benefit of the Riverside campus as provided in the Foundation's Articles of Incorporation, provided The Regents have maintained tax-exempt status under the Internal Revenue Code and relevant California laws.

Oversight by the University of California
The Foundation is subject to the policies and procedures of The Regents. All contributions to the Foundation ultimately benefit the University of California, Riverside (UC Riverside). The Regents established the *Policy and Administrative Guidelines for Campus Foundations*, which requires that the Foundation transfer contributed expendable funds and endowment payout to UC Riverside for ultimate expenditure in compliance with donor restrictions on gifts. Contributions that are made directly to The Regents for the benefit of UC Riverside are not recorded by the Foundation and are not reflected in the accompanying financial statements; they are reflected in the financial statements of the University.

2. Summary of Significant Accounting Policies

Basis of Accounting
The financial statements for the Foundation have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Foundation follows accounting principles issued by the GASB.

New Accounting Pronouncements
In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Valuation, effective for the Foundation's fiscal year beginning July 1, 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is 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. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Foundation adopted this pronouncement effective July 1, 2015, and implemented retrospectively to include FY2015 financial statement balances, and added all necessary disclosures (Note 4).

Upcoming Accounting Pronouncements
In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the Foundation's fiscal year beginning July 1, 2017. This statement addresses when irrevocable split-interest agreements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. The Statement also provides expanded guidance for circumstances in which the government holds the assets. The Foundation is evaluating the effect that Statement No. 81 will have on its financial statements.

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 statements of net position date. Liabilities that reasonably can be expected, as part of normal Foundation business operations, to be liquidated within 12 months of the statements of net position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

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

Cash Equivalents
The Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Included in the Foundation's cash equivalents are amounts in the UC Regents Short Term Investment Pool (STIP).

Contributions and Pledges

Pledges receivable are written unconditional promises to make future gifts. The Foundation recognizes a receivable and contribution 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. These eligibility requirements require 1) the Foundation to be stated as the recipient of the pledge; 2) the pledge is considered available for use and can be sold, disbursed, consumed, or invested for a term or in perpetuity; 3) any contingencies on the pledge are met; and 4) if a reimbursement of expenses, allowable costs have been incurred.

Pledge payments scheduled for collection within the next fiscal year are recorded as current assets. Pledge payments scheduled to be collected beyond one year are discounted to recognize the present value of the expected 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 based on management's assessment of the collectability of outstanding pledges.

Conditional pledges, which depend on the occurrence of uncertain or specified future events, such as matching gifts from other donors, are recognized when the condition is met.

Pledges for endowments are not recorded as revenue or a pledge receivable at the time the pledge is made, as the funds are not available to be invested in perpetuity as specified by the donor. Revenue is recognized on payments on endowed pledges when the cash is received and is recorded in contributions to permanent endowments.

Noncash contributions are recorded at the appraised value of the asset at the date of donation. Fair value is determined based on appraisals or other third-party sources. Gifts of securities are recorded based on fair value at the date of donation.

Investments

Investments are measured and recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or utilizing an industry standard pricing service, when available. 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 share as quoted.

Investments also include an interest in private equity for which fair value is based on valuation provided by the partnership. The valuation is primarily based on the Net Asset Value (NAV) of the underlying investments. The net asset value (NAV) is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through June 30, 2016 and 2015, respectively

Because the private equity is not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would be used had a ready market for such investments existed. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

The Foundation exercises due diligence in assessing the external managers' use of and adherence to fair value principles.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the cost of the investment sold. Dividend and interest income is accrued as earned.

Investments Held in Charitable Remainder Unitrusts
The Foundation has been designated as the trustee for several unitrusts (the Trusts). The trust agreements require that the trustee make annual payments to the beneficiaries. Upon the death of the beneficiaries or termination of the Trusts, as defined, the remaining assets of the Trusts will become non-operating revenue to the Foundation, as stipulated in the trust agreements.

The liability for the estimated future payments to the donor or other beneficiaries changes as benefit payments are made to the donors and beneficiaries each year and as life expectancies change. Any fluctuations in the fair 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 a third party trust administrator.

The Foundation has been named the irrevocable beneficiary for several charitable remainder trusts for which the Foundation is not the trustee. Such trusts have not met the timing requirement for revenue recognition (available to be invested) and thus will not be reported by the Foundation until cash or assets are received. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the Foundation and will be reported by the Foundation as contribution revenue.

Estimates of the fair value of interests in externally held irrevocable trusts where the Foundation is the beneficiary of the remainder that will not become a permanent endowment upon distribution to the Foundation are based upon the present value of the expected future income or, if available, the Foundation's proportional interest in the fair value of the trust assets. Upon the adoption of GASB No. 81 in FY 2018, these trusts will be required to be recorded. The impact of this change is currently being evaluated.

Real Estate
From time to time, the Foundation receives assets other than cash from its donors. It is the Foundation's policy to sell these assets to support campus programs or, in the case of endowment

funds, to invest the proceeds from the sales in accordance with the Foundation's investment policy. It is the Foundation's intention to liquidate these assets as soon as is practicable. As of June 30, 2016 and 2015, the Foundation held real estate previously contributed as part of an endowment fund. This asset is reported at fair value and changes in its fair value are recorded in the statements of revenue, expenses, and changes in net position based on current appraised values.

Net Position

The Foundation's net position is classified as follows:

Restricted – Nonexpendable

Assets, which are subject to externally imposed conditions, requiring the Foundation to retain them in perpetuity. Net position in this category consists of endowments held by the Foundation and funds held in annuity and life income funds that will become endowments upon termination of the trusts.

Restricted – Expendable

Assets, which are subject to externally imposed conditions that can be fulfilled by the actions of the Foundation or by the passage of time. Funds functioning as endowments are contributions restricted by the donor for various campus departments, which have been designated by those departments as endowments. Income and appreciation earned on funds functioning as endowment are expendable by the designated department. Endowment income and appreciation represents the expendable earnings on endowments. Annuity and life income funds are restricted until trusts are terminated and trust assets become available for use.

Unrestricted

All other categories of net position are those that are not subject to donor-imposed restrictions. In addition, management of the Foundation may designate unrestricted net position for use.

Classification of Revenue and Expenses

Operating revenue and expenses are distinguished from nonoperating items and generally result from providing services in connection with ongoing operations and stewarding of current funds. The principal operating revenue is derived from contributions and other fund-raising activities. Operating expenses consist primarily of grants to the campus and administrative expenses.

Nonoperating revenue and expenses consist of investment income, investment management services fees, realized gains (losses) on investments, change in unrealized appreciation (depreciation) in the fair value of investments, and the change in the value of annuity and life income liabilities.

Contributions for permanent endowment purposes are classified as other changes in net position.

Spending Policy of Endowments

The UCR 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 Foundation's Board of Trustees approved a 4.0% spending rate of the endowment fund's average unit market value for fiscal year 2016. For fiscal year 2016, the average unit market value is calculated using the closing unit market value on the last day of each of the 84 contiguous months, the last of which ended on May 31 of such fiscal year. This policy is consistent with the Endowment Investment and Spending Policy and Guidelines adopted by the

Board of Trustees. Earnings in excess of the payout rate are retained in the endowments as restricted expendable.

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.

Use of Estimates
The preparation of the financial statements in conformity with US generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Liabilities to Life Beneficiaries
The Foundation uses the actuarial method of recording split interest agreements. Under this method, when a gift is received, the present value of the expected payments to beneficiaries is recorded as a liability, based on the 2012 Individual Annuity Reserving Mortality Table (IAR 2012), and the remainder is recorded as a contribution in the appropriate net position category. The investment account is credited with investment activity and is charged with payments to beneficiaries. Annually adjustments are made between the liability account and the net position account for changes in value of split interest agreements caused primarily by changes in life expectancies.

The present value of liabilities to life beneficiaries is calculated using discount rates based upon the U.S. government securities, treasury constant maturities, and nominal rate tables. The discount rates ranged from 2.73% to 8.23%.

Reclassifications
Certain reclassifications have been made to the 2015 financial information to conform to the 2016 financial statement presentation.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	2016	2015
Demand deposits	$ 41,696	$ 30,068
Money market	1,711,106	2,345
UC Regents Short Term Investment Pool (STIP)	7,325,377	6,718,541
	$ 9,078,179	$ 6,750,954

The Foundation maintains centralized management for substantially all of its cash. Cash in demand deposit accounts is minimized by sweeping available cash balances into STIP on an asneeded basis. The Foundation does not have any exposure to foreign currency risk in demand deposit accounts.

Cash and cash equivalents as reported on the statements of financial position comprise demand deposits maintained at the Foundation's bank as well as amounts deposited in money market accounts and the STIP. The bank balance of demand deposits at financial institutions was $41,696 and $30,068 at June 30, 2016 and 2015, respectively. Demand deposits held at financial institutions were insured by the Federal Depository Insurance Corporation (FDIC) up to $250,000 per account at June 30, 2016. Money market accounts and funds held in STIP totaling $9,036,483 and $6,720,886 at June 30, 2016 and 2015, respectively, were not insured by either the FDIC or Securities Investor Protection Corporation and were uncollateralized.

4. Investments

At June 30, 2016 and 2015, the composition of investments is summarized as follows:

	2016	2015
Private equity	$ 157,171	$ 218,325
Equity securities - U.S.	35,887,986	-
Other	19,332	162,877
Commingled funds		
Balanced funds	2,112,127	12,363,440
U.S. equity funds	23,685,898	59,320,143
Non-U.S. equity funds	53,215,486	44,842,791
U.S. bond funds	9,385,140	11,261,026
Non-U.S. bond funds	3,705,964	5,676,531
Money market	85,469	73,092
Total investments and other assets	$ 128,254,600	$ 133,918,195

Investment Performance
The components of realized/unrealized gains and losses on investments and real estate are as follows:

	2016	2015
Unrealized (losses) on investments	$ (10,017,623)	$ (4,172,360)
Unrealized (loss) gains on real estate	(195,000)	375,000
Realized gains on investments, net	291,056	723,259
Net realized/unrealized gain (losses) on investments and real estate	$ (9,921,567)	$ (3,074,101)

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.

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 policy is to invest in individual fixed-income securities, comingled fixed-income mutual funds, and exchange traded funds.

The credit risk profile for the Foundation's fixed-income securities at June 30, 2016 and 2015 is as follows:

	2016	2015
Commingled funds		
U.S. bond funds – not rated	$ 9,385,140	$ 11,261,026
Non-U.S. bond funds – not rated	3,705,964	5,676,531
Money market– not rated	85,496	73,061
	$ 13,176,600	$ 17,010,618

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 returned. Substantially all of the Foundation's investments are issued, registered or held in the name of the Foundation by its master custodian, as agent for the Foundation. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial risk is considered to be remote.

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. Concentration of credit risk associated with the Foundation's investments must be disclosed if investments in any one issuer represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

At June 30, 2016 and 2015, the Foundation did not hold a single qualifying investment that was greater than 5% of the investment portfolio.

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. It is not a measure of time.

The effective duration for the Foundation's fixed-income securities at June 30, 2016 and 2015 is as follows:

	2016	2015
Commingled funds		
U.S. bond funds	2.6 years	3.3 years
Non-U.S. bond funds	2.5 years	3.3 years

The Foundation considers the effective duration to be zero for money market accounts because they are designed to have a constant $1 share value due to the short term, liquid nature of the underlying securities.

Foreign Currency Risk

The Foundation's investment policy with respect to foreign currency risk restricts investments to U.S. dollar-denominated securities.

Fair Value

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities 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, commingled funds, 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 private equity investments.

Net Asset Value (NAV) – Investments whose fair value is measured at NAV 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.

Not Leveled – Cash and cash equivalents are not measured at fair value and, thus, are not subject to the fair value disclosure requirements.

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

	Total	**Quoted Prices in Active Markets**	**Other Observable Inputs**	**Unobservable Inputs**	**Net Asset Value**	**Not Leveled**
		(Level 1)	**(Level 2)**	**(Level 3)**	**(NAV)**	
Equity securities	36,045,157	35,887,986	-	-	157,171	-
Commingled funds	92,104,615	92,104,615	-	-	-	-
Cash	85,496	-	-	-	-	85,496
Other	19,332					19,332
Total investments and other assets	**128,254,600**	**127,992,601**	**-**	**-**	**157,171**	**104,828**

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

	Total	**Quoted Prices in Active Markets**	**Other Observable Inputs**	**Unobservable Inputs**	**Net Asset Value**	**Not Leveled**
		(Level 1)	**(Level 2)**	**(Level 3)**	**(NAV)**	
Equity securities	218,325	-	-	-	218,325	-
Commingled funds	133,463,931	133,463,931	-	-	-	-
Cash	73,092	-	-	-	-	73,092
Other	162,887					162,887
Total investments and other assets	**133,918,195**	**133,463,931**	**-**	**-**	**218,325**	**235,939**

The Foundation addresses the nature and risks of the investments and whether the investments are probable of being sold at amounts different from the NAV per share (or its equivalent).

Investment Type	Fair value	Unfunded commitments	Redemption terms and restrictions
		(Level 1)	(Level 2)
Private equities	157,171	-	-

Investment Related Commitments

The Foundation had no investment related commitments as of June 30, 2016.

5. Pledges Receivable

Pledges receivable represent unconditional promises of contributions to be collected in future periods. 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. Included in pledges receivable at June 30, 2016 and 2015, are pledges made by trustees of the Foundation, with the net amount of such receivables totaling $78,896 and $117,173, respectively.

Management evaluates the collectability of its receivables and records an allowance for estimated uncollectible amounts. Pledges due beyond one year are discounted using rates ranging from 1.2% to 2.4% as of June 30, 2016 and 2015. The discount rates will be applied for the life of the pledges. Pledges recorded during fiscal years 2016 and 2015 were discounted at 1.2% and 1.4%, respectively. This discount rate is the average rate of the STIP for these respective years. In subsequent years, this discount is accreted and recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

Pledges receivable consist of the following at June 30:

	2016	2015
Pledges receivable	$ 2,313,915	$ 801,662
Less: Discount for future payments	(26,584)	(14,499)
Net pledges receivable	$ 2,287,331	$ 787,163
Current pledges receivable, net	$ 1,492,983	$ 379,600
Noncurrent pledges receivable, net	794,348	407,563
	$ 2,287,331	$ 787,163

6. Liabilities to Life Beneficiaries

At June 30, 2016 and 2015, the Foundation was the remainderman and trustee of $4,399,798 and $4,805,238, respectively, of trust assets from charitable remainder trusts. The trust assets were recorded at fair value as of the date at which the Foundation became the trustee of the trust. The trusts make periodic annuity or income payments to designated individuals or beneficiaries over their lifetimes. The difference between the liability to the life beneficiaries and the fair value of the trust assets at the time of donation is recorded as contribution revenue. Liabilities to life beneficiaries of $1,940,968 and $2,201,872 at June 30, 2016 and 2015, respectively, represent the actuarially determined present value of payments over the expected lives of the beneficiaries discounted to their expected present value using rates ranging from 2.73% to 8.23%.

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

	Balance at June 30, 2015	Additions	Decreases	Balance at June 30, 2016
Liabilities to life beneficiaries	$ 2,201,872	$ -	$ (260,904)	$ 1,940,968

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

	Balance at June 30, 2014	Additions	Decreases	Balance at June 30, 2015
Liabilities to life beneficiaries	$ 2,354,668	$ 1,069	$ (153,866)	$ 2,201,872

7. Transactions With UC Riverside

UC Riverside provides the facilities, personnel, and operating budget for the Foundation. All pension and postretirement benefit expenses and liabilities related to these personnel provided, are recorded on the financial statements of UC Riverside.

Per UC Riverside campus policies, the Foundation remits a gift fee of 5% on each gift, as well as the short-term interest and dividend earnings on its expendable gift and accumulated endowment payout balances to the campus. These fees become a resource of the Chancellor to help support costs of the campus and in particular those related to Advancement. In addition, per campus policy and as permitted by law, an endowment cost recovery fee is assessed annually on the endowment and endowment-related funds to offset the campus costs of administering and carrying out the terms of the endowment and endowment-related funds. For the years ended June 30, 2016 and 2015, the gift fee, interest and dividend earnings, and the cost recovery fees amounted to $1,124,114 and $680,306, respectively, and are reflected within grants to campus on the statements of revenue, expenses, and changes in net position.

8. Related-Party Transactions

During the years ended June 30, 2016 and 2015, $435,205 and $317,914, respectively, were received in contributions from trustees of the Board.