

# **The UCLA Foundation**

**Audited Consolidated Financial Statements  
For the Years Ended June 30, 2008 and 2007**

**The UCLA Foundation**  
**Index**  
**June 30, 2008 and 2007**

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**Report of Independent Auditors**

The Board of Directors of  
The UCLA Foundation

In our opinion, the accompanying consolidated statements of net assets and the related statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of The UCLA Foundation (a component unit of the University of California) at June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The UCLA Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*PricewaterhouseCoopers LLP*

September 10, 2008

# **The UCLA Foundation**

## **Management's Discussion and Analysis**

### **(Unaudited)**

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

The following discussion and analysis of The UCLA Foundation's financial performance presents an overview of its financial activities for the fiscal year ended June 30, 2008 with selected comparative information for the year ended June 30, 2007. This discussion and analysis has been prepared by management and should be read in conjunction with and is qualified in its entirety by the accompanying audited consolidated financial statements and footnotes.

#### **Financial Highlights**

In fiscal year 2008 (FY08), The Foundation's endowed investment pool surpassed the \$1 billion mark. The UCLA Foundation's financial position continued to improve due primarily to increased donor support. Net assets, which represent the excess of total assets over total liabilities, grew by \$101.3 million to \$1.4 billion for the year ended June 30, 2008. Total assets increased 8% to approximately \$1.6 billion and total liabilities increased 9% to \$196.3 million as of June 30, 2008.

In FY08, the Foundation's revenue in the form of contributions from donors was \$184.7 million, a 26% increase over FY07, while expenditures in the form of grants and transfers to the Campus were \$140.8 million, a 13% decrease over FY07 resulting in an operating surplus of \$43.9 million. The Foundation had a non-operating loss of \$4.2 million for this fiscal year while other income in the form of private gifts of permanent endowments was \$61.7 million.

#### **Using This Report**

This annual report consists of a series of consolidated financial statements prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis—For State and Local Governments, as amended.

One of the most important questions asked about The UCLA Foundation finances is whether The UCLA Foundation is better off or worse off as a result of the year's activities. The keys to understanding this question are the Consolidated Statements of Net Assets, Consolidated Statements of Revenues, Expenses and Changes in Net Assets and the Consolidated Statements of Cash Flows. These statements present financial information in a form similar to that used by private sector companies. The UCLA Foundation's net assets (the difference between assets and liabilities) are one indicator of The Foundation's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of The Foundation's financial condition when considered in combination with other non-financial information.

The Consolidated Statements of Net Assets includes all assets and liabilities. The Consolidated Statements of Revenues, Expenses and Changes in Net Assets presents revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating; with gifts reported as operating revenue and investment results reported as non-operating revenue. These statements are prepared using the accrual basis of accounting.

Another way to assess the financial health of The UCLA Foundation is to look at the Consolidated Statements of Cash Flows. Its primary purpose is to provide relevant information about the sources and uses of cash of an entity during a given period.

**The UCLA Foundation**  
**Management's Discussion and Analysis**  
**(Unaudited)**

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**Condensed Consolidated Statement of Net Assets**

(in thousands)

|                        | <u>2008</u>         |             | <u>2007</u>         |             | <u>2006</u>         |             |
|------------------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|
| <b>ASSETS</b>          |                     |             |                     |             |                     |             |
| Current assets         | \$ 270,041          | 17%         | \$ 241,615          | 16%         | \$ 236,748          | 18%         |
| Noncurrent assets      | <u>1,327,178</u>    | <u>83</u>   | <u>1,237,757</u>    | <u>84</u>   | <u>1,067,610</u>    | <u>82</u>   |
| Total assets           | 1,597,219           | 100         | 1,479,372           | 100         | 1,304,358           | 100         |
| <b>LIABILITIES</b>     |                     |             |                     |             |                     |             |
| Current liabilities    | 150,940             | 77          | 132,300             | 74          | 126,531             | 74          |
| Noncurrent liabilities | <u>45,408</u>       | <u>23</u>   | <u>47,515</u>       | <u>26</u>   | <u>44,609</u>       | <u>26</u>   |
| Total liabilities      | 196,348             | 100         | 179,815             | 100         | 171,140             | 100         |
| <b>NET ASSETS</b>      |                     |             |                     |             |                     |             |
| Restricted:            |                     |             |                     |             |                     |             |
| Nonexpendable          | 519,527             | 37          | 452,429             | 35          | 406,178             | 36          |
| Expendable             | 867,295             | 62          | 843,088             | 64          | 724,644             | 63          |
| Unrestricted           | <u>14,049</u>       | <u>1</u>    | <u>4,040</u>        | <u>1</u>    | <u>2,396</u>        | <u>1</u>    |
| Total net assets       | <u>\$ 1,400,871</u> | <u>100%</u> | <u>\$ 1,299,557</u> | <u>100%</u> | <u>\$ 1,133,218</u> | <u>100%</u> |

The Condensed Consolidated Statements of Net Assets shows assets, liabilities and net assets for fiscal years 2008, 2007 and 2006. In FY08, the Foundation's total assets increased by \$117.8 million to approximately \$1.6 billion. Current assets increased by \$28.4 million to \$270.0 million and comprised 17% of total assets (2008: 17%, 2007: 16%; 2006: 18%). Current assets consist primarily of short-term investments, pledges receivable within one year and cash collateral invested under the securities lending agreement.

Non-current assets increased by \$89.4 million to \$1.3 billion and comprised 83% of total assets (2008: 83%, 2007: 84%; 2006: 82%). Non-current assets consist primarily of long term investments and pledges receivable due after one year.

In FY08, the Foundation's total liabilities increased by \$16.5 million to \$196.3 million. Current liabilities increased by \$18.6 million to \$150.9 million and comprised 77% of total liabilities (2008: 77%, 2007: 74%; 2006: 74%). Current liabilities consist of Amounts Held for Others and a Payable under the Securities Lending Agreement the latter of which increased \$18.3 million in FY08.

Non-current liabilities decreased \$2.1 million to \$45.4 million and comprised 23% of total liabilities (2008: 23%, 2007: 26%; 2006: 26%). Non-current liabilities consist primarily of Annuities Payable and Liabilities to Life Beneficiaries.

**The UCLA Foundation**  
**Management's Discussion and Analysis**  
**(Unaudited)**

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**Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Assets**

|  | <u>2008</u>         | <i>(In thousands)</i><br><u>2007</u> | <u>2006</u>         |
|--|---------------------|--------------------------------------|---------------------|
| <b>Operating revenue and expenses</b>              |                     |                                      |                     |
| Contributions                                      | \$ 184,652          | \$ 146,417                           | \$ 110,274          |
| Expenditures                                       | <u>140,771</u>      | <u>162,582</u>                       | <u>118,427</u>      |
| Operating income                                   | 43,881              | (16,165)                             | (8,153)             |
| <b>Nonoperating revenues and expenses</b>          |                     |                                      |                     |
| Interest and dividends on investments              | 20,833              | 22,725                               | 19,921              |
| Realized gain on investments                       | 48,589              | 54,661                               | 60,267              |
| (Decrease)/increase in market value of investments | (74,898)            | 76,128                               | 14,051              |
| Change in value of split interest agreements       | <u>1,247</u>        | <u>(10,657)</u>                      | <u>(5,527)</u>      |
| Nonoperating income                                | (4,229)             | 142,857                              | 88,712              |
| Private gifts of permanent endowments              | <u>61,662</u>       | <u>39,647</u>                        | <u>36,325</u>       |
| Increase in net assets                             | 101,314             | 166,339                              | 116,884             |
| <b>Net Assets</b>                                  |                     |                                      |                     |
| Net assets, beginning of year                      | <u>1,299,557</u>    | <u>1,133,218</u>                     | <u>1,016,334</u>    |
| Net assets, end of year                            | <u>\$ 1,400,871</u> | <u>\$ 1,299,557</u>                  | <u>\$ 1,133,218</u> |

The Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Assets summarizes Operating income, Nonoperating income and Private gifts of permanent endowments for fiscal years 2008, 2007 and 2006. During FY08, The UCLA Foundation's net assets increased \$101.3 million as an operating surplus and an increase in private gifts of permanent endowments was partially offset by a non-operating loss. In FY08, the increase in net assets decreased 39% as compared to an increase of \$166.3 million in FY07 and decreased 13% versus an increase of \$116.9 million in FY06.

In FY08, the Foundation benefitted from a large operating surplus as revenues in the form of significant contributions from donors exceeded expenditures in the form of support to the Campus. Compared to FY07, revenues increased significantly by 26% to \$184.7 million due to numerous large contributions while expenditures decreased 13% to \$140.8 million because prior year expenditures included a \$40 million transfer to the Campus for the construction of the Reagan hospital. Compared to FY06, revenues increased 67% and expenditures increased 19%.

In FY08, The Foundation's operating surplus was partially offset by small combined nonoperating loss of \$4.2 million which includes investment income, realized gains and losses, unrealized losses gains and losses and changes in the value of split interest agreements. Private gifts of permanent endowments increased to \$61.7 million an increase of 56% and 70% compared to FY07 and FY06 respectively.

**Factors Impacting Future Periods**

Management is not aware of any factors that would have a significant impact on future periods.

**The UCLA Foundation**  
**Consolidated Statements of Net Assets**  
**As of June 30, 2008 and 2007**  
**(in thousands)**

|   | 2008                | 2007                |
|---|---------------------|---------------------|
| <b>Assets</b>                                 |                     |                     |
| Current assets                                |                     |                     |
| Cash  | \$ 720              | \$ 731              |
| Short-term investments                        | 152,324             | 150,813             |
| Accounts receivable                           | 8,711               | 2,477               |
| Accrued investment income                     | 753                 | 1,576               |
| Pledges receivable, net                       | 41,593              | 37,342              |
| Notes receivable                              | 32                  | 42                  |
| Funds held in trust by others                 | 16                  | 1,034               |
| Collateral under securities lending agreement | <u>65,892</u>       | <u>47,600</u>       |
| Total current assets                          | <u>270,041</u>      | <u>241,615</u>      |
| Noncurrent assets                             |                     |                     |
| Long-term investments                         | 1,152,048           | 1,051,765           |
| Investments in land and buildings             | 27,759              | 23,484              |
| Accounts receivable                           | 2,070               | 1,715               |
| Notes receivable                              | 502                 | 551                 |
| Pledges receivable, net                       | 138,222             | 152,992             |
| Funds held in trust by others                 | <u>6,577</u>        | <u>7,250</u>        |
| Total noncurrent assets                       | <u>1,327,178</u>    | <u>1,237,757</u>    |
| Total assets                                  | <u>\$ 1,597,219</u> | <u>\$ 1,479,372</u> |
| <b>Liabilities and Net Assets</b>             |                     |                     |
| Current liabilities                           |                     |                     |
| Accounts and grants payable                   | \$ 2,056            | \$ 1,351            |
| Annuities payable                             | 3,083               | 2,924               |
| Deferred revenue                              | -                   | 1,551               |
| Liabilities to life beneficiaries             | 3,272               | 3,381               |
| Amounts held for others                       | 76,637              | 75,493              |
| Payable under securities lending agreement    | <u>65,892</u>       | <u>47,600</u>       |
| Total current liabilities                     | <u>150,940</u>      | <u>132,300</u>      |
| Noncurrent liabilities                        |                     |                     |
| Annuities payable                             | 20,252              | 18,722              |
| Liabilities to life beneficiaries             | <u>25,156</u>       | <u>28,793</u>       |
| Total noncurrent liabilities                  | <u>45,408</u>       | <u>47,515</u>       |
| Total liabilities                             | <u>196,348</u>      | <u>179,815</u>      |
| Net assets                                    |                     |                     |
| Restricted for                                |                     |                     |
| Nonexpendable                                 |                     |                     |
| Endowments                                    | 499,459             | 428,948             |
| Annuity and life income fund                  | 20,068              | 23,481              |
| Expendable                                    |                     |                     |
| Endowment earnings                            | 220,597             | 268,226             |
| Annuity and life income fund                  | 17,572              | 17,564              |
| Funds functioning as endowments               | 464,852             | 410,636             |
| Gifts   | 164,274             | 146,662             |
| Unrestricted                                  | <u>14,049</u>       | <u>4,040</u>        |
| Total net assets                              | <u>1,400,871</u>    | <u>1,299,557</u>    |
| Total liabilities and net assets              | <u>\$ 1,597,219</u> | <u>\$ 1,479,372</u> |

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

**The UCLA Foundation**  
**Consolidated Statements of Revenues, Expenses**  
**and Changes in Net Assets**  
**For the Years Ended June 30, 2008 and 2007**  
(in thousands)

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|  | 2008                | 2007                |
|--|---------------------|---------------------|
| <b>Revenues</b>  |                     |                     |
| Operating revenues                                       |                     |                     |
| Contributions (net of allowance of \$818; \$586 in 2007) | \$ 184,652          | \$ 146,417          |
| Total operating revenues                                 | <u>184,652</u>      | <u>146,417</u>      |
| <b>Expenses</b>  |                     |                     |
| Operating expenses and grants                            |                     |                     |
| UCLA Scholarships, research and other purposes           | 120,099             | 145,164             |
| UCLA Chancellor's Priorities                             | 7,000               | 7,000               |
| Gift Administration Fees                                 | 10,699              | 7,488               |
| UCLA Telemarketing program                               | 1,500               | 1,200               |
| General expenditures                                     | 861                 | 840                 |
| UCLA Alumni Association                                  | 350                 | 300                 |
| Others grants to UCLA                                    | 12                  | 90                  |
| Special Projects   | -                   | 500                 |
| Student Support  | <u>250</u>          | <u>-</u>            |
| Total operating expenses and grants                      | <u>140,771</u>      | <u>162,582</u>      |
| Operating income (loss)                                  | <u>43,881</u>       | <u>(16,165)</u>     |
| <b>Nonoperating revenues (expenses)</b>                  |                     |                     |
| Interest and dividends on investments                    | 20,599              | 22,606              |
| Securities lending income, net                           | 234                 | 119                 |
| Realized gains on investments                            | 48,589              | 54,661              |
| (Decrease)/Increase in market value of investments       | (74,898)            | 76,128              |
| Change in value of split interest agreements             | <u>1,247</u>        | <u>(10,657)</u>     |
| Net nonoperating (expenses) revenues                     | <u>(4,229)</u>      | <u>142,857</u>      |
| Income before other changes in net assets                | 39,652              | 126,692             |
| <b>Other changes in net assets</b>                       |                     |                     |
| Private gifts of permanent endowments                    | <u>61,662</u>       | <u>39,647</u>       |
| Increase in net assets                                   | 101,314             | 166,339             |
| <b>Net assets</b>  |                     |                     |
| Beginning of year  | <u>1,299,557</u>    | <u>1,133,218</u>    |
| End of year  | <u>\$ 1,400,871</u> | <u>\$ 1,299,557</u> |

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

**The UCLA Foundation**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended June 30, 2008 and 2007**  
**(in thousands)**

|  | 2008             | 2007             |
|--|------------------|------------------|
| <b>Cash flows from operating activities</b>  |                  |                  |
| Contributions  | \$ 190,332       | \$ 163,362       |
| Operating expenses and grants  | <u>(142,123)</u> | <u>(160,334)</u> |
| Net cash provided by operating activities  | <u>48,209</u>    | <u>3,028</u>     |
| <b>Cash flows from noncapital financing activities</b>   |                  |                  |
| Gifts and grants received for other than capital purposes                                      |                  |                  |
| Private gifts for endowment purposes   | <u>61,662</u>    | <u>39,647</u>    |
| Net cash provided by noncapital financing activities   | <u>61,662</u>    | <u>39,647</u>    |
| <b>Cash flows from investing activities</b>  |                  |                  |
| Proceeds from sales of investments   | 119,736          | 141,549          |
| Purchases of investments   | (251,274)        | (207,278)        |
| Interest and dividends on investments  | 21,656           | 22,325           |
| Proceeds from revolving line of credit   | 25,000           | -                |
| Payments under revolving line of credit  | <u>(25,000)</u>  | <u>-</u>         |
| Net cash used by investing activities  | <u>(109,882)</u> | <u>(43,404)</u>  |
| Net (decrease) in cash   | (11)             | (729)            |
| Cash, beginning of year  | <u>731</u>       | <u>1,460</u>     |
| Cash, end of year  | <u>\$ 720</u>    | <u>\$ 731</u>    |
| <b>Reconciliation of net operating revenues to net cash used in operating activities</b>       |                  |                  |
| Operating income (loss)  | \$ 43,881        | \$ (16,165)      |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities |                  |                  |
| Allowance for uncollectible receivables  | 818              | 586              |
| Changes in assets and liabilities  |                  |                  |
| Accounts receivable  | (6,589)          | (274)            |
| Pledges receivable, net  | 9,701            | 16,650           |
| Notes receivable   | 59               | (83)             |
| Funds held in trust by others  | 1,691            | 164              |
| Accounts and grants payable  | 705              | (293)            |
| Annuities payable  | 1,689            | 2,541            |
| Liabilities to life beneficiaries  | (3,746)          | -                |
| Deferred revenue   | <u>-</u>         | <u>(98)</u>      |
| Net cash provided by operating activities  | <u>\$ 48,209</u> | <u>\$ 3,028</u>  |
| <b>Supplemental noncash activities information</b>   |                  |                  |
| Gifts of personal or real property   | \$ 19,432        | \$ 1,164         |
| Gifts of securities  | 54,483           | 64,384           |
| Securities lending activity  | 18,292           | (2,772)          |

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

# The UCLA Foundation

## Notes to Consolidated Financial Statements

### June 30, 2008 and 2007

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#### 1. Organizations

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

UCLA provides the facilities and the staff for the operation and administration of The UCLA Foundation's activities at no cost. Under an agreement formalized on May 16, 1983, The UCLA Foundation transfers monies to UCLA, which assumes responsibility for actual disbursement; therefore, net assets do not include any monies held but not yet expended by UCLA. The consolidated financial statements include the accounts of The UCLA Foundation, The UCLA Foundation Trusts, and The UCLA Foundation Pooled Income Fund.

#### 2. Summary of Significant Accounting Policies

The financial statements of The UCLA Foundation are prepared in accordance with the statements of the Governmental Accounting Standards Board ("GASB"). The GASB requires that The UCLA Foundation comply with the requirements of all GASB pronouncements, as well as all Financial Accounting Standards Board ("FASB") pronouncements issued before November 30, 1989 that do not conflict with, or contradict, GASB standards. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

##### **Investments**

Investments are generally carried 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 over-the-counter markets. In the case of pooled funds or mutual funds, the fair value is determined as the number of units held in the fund multiplied by the price per unit share as publicly quoted. Alternative investments are valued as reported by the General Partners and Fund Managers. As limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

Short-term investments consist primarily of the Regent's Short-Term Investment Pool. Short-term investments are carried at cost, which approximates market value. All endowment and trust investments are classified as non-current regardless of maturity due to restrictions limiting The UCLA Foundation's ability to use these investments.

The net change in the fair value of investments represents both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains or losses are computed based on specific identification of investments sold. Any gains recognized on the sale of short-term investments are available for distribution.

**The UCLA Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

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**2. Summary of Significant Accounting Policies (Continued)**

**Pledges Receivable**

Pledges are written unconditional promises to make future payments. Pledges meeting the time requirements specified by GASB Statement No. 33 are included in the financial statements as pledges receivable and recognized as revenue in the period pledged. 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 as determined by management.

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.

**Donated Properties**

Donations of securities, real estate properties and other nonmonetary items are recorded at their fair market value at the date of gift. Real estate properties currently listed for sale are recorded at appraised value or present market value, less estimated selling expenses, whichever is lower.

**Annuities Payable**

Annuities payable represent actuarially determined liabilities for contractual obligations of gift annuity funds.

**Net Assets**

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

*Restricted – nonexpendable net assets* include permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing income that may be expended or added to principal in accordance with the donor's wishes.

*Restricted – expendable net assets* relate to contributions designated by donors for use by particular entities or programs or for specific purposes or functions of UCLA. They also include quasi-endowments, of which the corpus can be invaded. Income and change in fair market value of endowment investments are classified as restricted-expendable net assets unless otherwise specified by the donor.

*Unrestricted net assets* are those net assets of The UCLA Foundation that are not subject to donor-imposed restrictions.

**Revenues and Expenses**

Contributions and pledges meeting the requirements of GASB Statement No. 33 are recognized as operating revenues in the period received or pledged. Disbursements in support of UCLA and certain administrative expenses incurred in conducting the business of The UCLA Foundation are presented in the financial statements as operating activities.

Nonoperating revenues and expenses include investment income and net realized and unrealized appreciation or depreciation in the fair value of investments.

# The UCLA Foundation

## Notes to Consolidated Financial Statements

### June 30, 2008 and 2007

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## 2. Summary of Significant Accounting Policies (Continued)

### Revenues and Expenses (Continued)

Gifts for permanent endowment purposes are classified as Other Changes in Net Assets.

### Endowments

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

The UCLA Foundation follows the Uniform Management of Institutional Funds Act ("UMIFA") of 1992. Under UMIFA, annual spending (payout) may be taken from investment income and net realized and unrealized investment gains. The annual payout rate for FY08 was 4.6% of the average market value of the endowment investment pool on a rolling 36-month basis. Payout is distributed to individual funds monthly based on the number of units in each fund at the beginning of the month.

### Annuity and Life Income Funds

The UCLA Foundation's Annuity and Life Income Funds consist of The UCLA Foundation Trusts, Pooled Income Fund, and Gift Annuity Fund.

### The UCLA Foundation Trusts

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

The Trusts are separate legal entities, created under the provisions of the Internal Revenue Code and applicable California law. Each trust has a calendar year-end as required by the Internal Revenue Code. The charitable remainder trusts are exempt from federal and California income taxes, except in any year in which they receive unrelated business taxable income.

### Pooled Income Fund

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

**The UCLA Foundation**  
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**2. Summary of Significant Accounting Policies (Continued)**

**Pooled Income Fund (Continued)**

Gifts to the Pooled Fund are commingled for investment and administration purposes. Each donor retains a life income interest in the Pooled Fund for one or more beneficiaries. Each donor is assigned units of participation at the time of contribution. Income is distributed on a quarterly basis according to each beneficiary's units of participation. Upon termination of the life income interest, the donor's pro rata share of the Pooled Fund balance is distributed to The UCLA Foundation for purposes designated in the trust agreements.

**Gift Annuity Fund**

Gift annuities are planned giving vehicles, whereby donors gift assets in exchange for annuity payments over the life-time of the annuitant or their beneficiaries. Assets contributed are separately invested and are used to fund the payments to the annuitants. Annuities that mature are used to fulfill the purposes that were set forth in the original annuity agreement.

**Use of Estimates**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. 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 revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Income Taxes**

The UCLA Foundation is exempt from Federal income and excise taxes and California franchise taxes under Section 501(c) (3) of the Internal Revenue Code and corresponding sections of the California Revenue and Taxation Code, respectively.

**3. Investments**

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, The UCLA Foundation's investments are reported by investment type at fair value in the Composition of Investments below. 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 UCLA Foundation to manage those risks.

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**3. Investments (Continued)**

The UCLA Foundation holds significant investments in the form of fixed income securities in the United States government, and fixed income and equity securities in the utilities, oil and gas, financial services, consumer products and services, technology, health care, transportation, and energy industries. The investment guidelines also permit alternative investments primarily in partnerships where The UCLA Foundation is a limited partner relying upon the expertise of experienced general partners. All limited partnerships in which The UCLA Foundation invests are subject to annual audits.

**Composition of Foundation Investments**

*(in thousands)*

|  | <b>2008</b>         | <b>2007</b>         |
|--|---------------------|---------------------|
| <b>Equity securities</b>                         |                     |                     |
| Domestic   | \$ 37,953           | \$ 39,816           |
| Foreign  | <u>87,710</u>       | <u>94,078</u>       |
| Subtotal equity securities                       | <u>125,663</u>      | <u>133,894</u>      |
| <b>Fixed income securities</b>                   |                     |                     |
| U.S. government guaranteed                       |                     |                     |
| U.S. Treasury bills                              |                     | 116                 |
| U.S. Treasury notes                              | 10,972              | 11,714              |
| U.S. Treasury bonds                              | <u>258</u>          | <u>245</u>          |
| Subtotal U.S. Treasury                           | 11,230              | 12,075              |
| U.S. government backed – asset-backed securities | <u>14</u>           | <u>15</u>           |
| Subtotal U.S. government guaranteed              | <u>11,244</u>       | <u>12,090</u>       |
| Other U.S. dollar denominated                    |                     |                     |
| Corporate bonds                                  | 80                  | 199                 |
| U.S. agencies – asset-backed securities          | 2                   | 2                   |
| Other  | <u>1</u>            | <u>816</u>          |
| Subtotal other U.S. dollar denominated           | <u>83</u>           | <u>1,017</u>        |
| Private equity                                   | 211,587             | 157,145             |
| Mortgage loans                                   | 9,715               | 6,736               |
| Real estate                                      | 50,879              | 51,896              |
| Futures and options contracts                    | –                   | –                   |
| Commingled funds – absolute return               | 288,994             | 226,914             |
| Commingled funds – balanced funds                | 24,613              | 24,235              |
| Commingled funds – U.S. equity funds             | 160,621             | 174,816             |
| Commingled funds – non-U.S. equity funds         | 154,031             | 143,768             |
| Commingled funds – U.S. bond funds               | 98,519              | 98,200              |
| Commingled funds – non-U.S. bond funds           | 3,885               | 2,974               |
| Commingled funds – money market funds            | 146,186             | 157,697             |
| Commingled funds – real estate                   | 17,440              | 10,223              |
| Other investments                                | <u>912</u>          | <u>973</u>          |
| Total investments                                | <u>\$ 1,304,372</u> | <u>\$ 1,202,578</u> |

**The UCLA Foundation**  
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**3. Investments (Continued)**

**Credit Risks**

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The Credit Risk Profile of Foundation Investments schedule summarizes the market value of fixed income securities subject to credit risk. The UCLA Foundation maintains policies to manage credit risk which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations including Standard & Poor's or Moody's Investors Service for all investments.

**Credit Risk Profile of Foundation Investments**

*(in thousands)*

|                                      | <b>2008</b>       | <b>2007</b>       |
|--------------------------------------|-------------------|-------------------|
| <b>Fixed income securities</b>       |                   |                   |
| U.S. government guaranteed           | \$ 11,244         | \$ 12,090         |
| <b>Other U.S. dollar denominated</b> |                   |                   |
| AAA                                  | 2                 | 614               |
| AA                                   | —                 | 203               |
| A                                    | 1                 | 103               |
| BB                                   | —                 | —                 |
| B                                    | 80                | 97                |
| Not rated                            | —                 | —                 |
| Total other U.S. dollar denominated  | <u>83</u>         | <u>1,017</u>      |
| <b>Commingled funds</b>              |                   |                   |
| U.S. bond funds: Not rated           | 98,519            | 98,200            |
| Non-U.S. bond funds: Not rated       | 3,885             | 2,974             |
| Money market funds: Not rated        | <u>146,186</u>    | <u>157,697</u>    |
| Total commingled funds               | <u>248,590</u>    | <u>258,871</u>    |
| Mortgage loans: Not rated            | <u>9,715</u>      | <u>6,736</u>      |
| Total funds subject to credit risk   | <u>\$ 269,632</u> | <u>\$ 278,714</u> |

**Custodial Risk**

Custodial risk is the risk that in the event of the failure of the custodian, the investments may not be returned. Substantially all of The UCLA Foundation's investments are issued, registered or held in the name of The UCLA Foundation by its master custodian bank, as its agent. Other types of investments represent ownership interest that do not exist in physical or book-entry form. As a result, custodial risk is remote.

**Concentration of Credit Risk**

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual shares. The Foundation maintains investment policies that establish thresholds for holdings of individual securities. The Foundation does not have any holdings meeting or exceeding these threshold levels.

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**3. Investments (Continued)**

**Interest Rate Risk**

Interest rate risk is the risk that fixed income securities will decline because of rising interest rates. The Foundation measures interest rate risk using the effective duration method. The Interest Rate Risk schedule summarizes the average effective duration of its fixed income investments. The Foundation maintains a policy to manage interest rate risk for fixed income investments which requires, in the aggregate, the average duration of managed fixed income assets to be maintained within the range of the average duration of the current Lehman Aggregate Bond Index plus or minus one and one-half years. This policy does not apply to investments in the unendowed investment pool including Regents STIP or other money market funds.

**Interest Rate Risk Associated with Foundation Investments & Investments Sensitive to Changes in Interest Rates**

| (effective duration in years)                    | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|
| <b>Fixed income securities</b>                   |             |             |
| U.S. government                                  |             |             |
| U.S. Treasury bills                              | 0.0         | 0.4         |
| U.S. Treasury notes                              | 3.5         | 3.0         |
| U.S. Treasury bonds                              | 6.5         | 6.9         |
| U.S. government backed – asset backed securities | 4.0         | 3.3         |
| Other U.S. dollar denominated                    |             |             |
| Corporate bonds                                  | 2.4         | 2.0         |
| U.S. agencies – asset-backed securities          | 0.2         | 0.2         |
| Supranational/foreign                            | 1.0         | 1.0         |
| Other  | 0.0         | 3.0         |
| Commingled funds – U.S. bond funds               | 4.7         | 5.1         |
| Commingled funds – non-U.S. bond funds           | 5.8         | 6.0         |
| Commingled funds – money market funds            | 1.7         | 1.2         |

**Investments Highly Sensitive to Changes in Interest Rates**

| (in thousands of dollars)  | <b>\$14.0</b> | <b>\$16.0</b> |
|----------------------------|---------------|---------------|
| Mortgage backed securities |               |               |

**Foreign Currency Risk**

Exposure from foreign currency risk results from investments in foreign currency-denominated equity or fixed income investments. The UCLA Foundation holds significant equity and other investments denominated in foreign currency that are summarized at market value on the following Foreign Currency Risk schedule. Currency hedging may be used by investment managers as a defensive strategy in global and international portfolios.

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**3. Investments (Continued)**

**Foreign Currency Risk Associated with Foundation Investments**

| <i>(in thousands)</i>                   | <b>2008</b>       | <b>2007</b>       |
|---|-------------------|-------------------|
| <b>Equity Securities</b>                |                   |                   |
| Australian Dollar                       | \$ 3,304          | \$ 2,568          |
| Brazilian Real                          | 5,440             | 3,922             |
| British Pound                           | 10,776            | 15,230            |
| Canadian Dollar                         | 2,551             | 2,009             |
| Danish Krone                            | 1,253             | 1,007             |
| Euro                                    | 25,211            | 27,243            |
| Hong Kong Dollar                        | 4,179             | 3,947             |
| Indian Rupee                            | 1,986             | 1,873             |
| Japanese Yen                            | 13,083            | 15,260            |
| Mexico Nuevo Peso                       | 1,233             | 2,663             |
| Miscellaneous                           | 7,324             | 4,959             |
| Norwegian Krone                         | 597               | 845               |
| Singapore Dollar                        | 1,810             | 1,201             |
| South African Rand                      | 527               | -                 |
| South Korean Won                        | 502               | 1,434             |
| Swiss Franc                             | 7,934             | 9,384             |
| Thai Bhat                               | -                 | 533               |
|   | <u>          </u> | <u>          </u> |
| Total exposure to foreign currency risk | <u>\$ 87,710</u>  | <u>\$ 94,078</u>  |

**Commingled Funds**

|                                |          |          |
|--------------------------------|----------|----------|
| Various currency denominations |          |          |
| Balanced funds                 | \$ 1,112 | \$ 1,117 |
| Non-U.S. equity                | 153,572  | 143,367  |
| Non-U.S. bond                  | 3,885    | 2,915    |
| Real Estate                    | 3,360    | 3,391    |

**Futures and Options Contracts**

The Foundation's investment policy prohibits the use of futures and options contracts without prior written approval by the Board of Directors, except by Alternative Investment managers. Currency hedging as a defensive strategy is permitted in global and international portfolios.

**4. Investment Performance**

The UCLA Foundation's return on the unendowed investment pool for the year ended June 30, 2008 was 4.6% (2007: 4.6%). The return on the endowed investment pool for the year ended June 30, 2008 was 0.2% (2007: 18.1%). The return on the combined planned giving investment pools was (3.9)% (2007: 14.7%).

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**5. Pledges Receivable**

Pledges receivable are unconditional promises to pay a certain amount and consist of the following at June 30, 2008:

| <i>(in thousands)</i>               | <b>2008</b>       | <b>2007</b>       |
|-------------------------------------|-------------------|-------------------|
| Pledges receivable                  | \$ 210,882        | \$ 230,281        |
| Less                                |                   |                   |
| Allowance for uncollectible pledges | (5,576)           | (5,361)           |
| Discount for future payments        | <u>(25,491)</u>   | <u>(34,586)</u>   |
| Net pledges receivable              | <u>\$ 179,815</u> | <u>\$ 190,334</u> |
| Current pledges receivable, net     | \$ 41,593         | \$ 37,342         |
| Non-current pledges receivable, net | <u>138,222</u>    | <u>152,992</u>    |
|                                     | <u>\$ 179,815</u> | <u>\$ 190,334</u> |

The allowance for uncollectible pledges has been established at 2% of pledge contribution revenue. Pledges due beyond one year have been discounted at an annual rate of 5% for pledges received in fiscal year 2008 and 2007. 67% of the pledges receivable, net of discount are from five donors as compared to 76% in 2007.

**6. Amounts Held For Others**

Amounts held for others as of June 30, 2008 of \$76.6 million (2007: \$75.5 million) represent amounts held by The UCLA Foundation under agency relationships with various support groups of UCLA and other outside entities. Such amounts are not assets owned by or contributed to The UCLA Foundation and, accordingly, are recorded as liabilities and not as support and revenue. The offsetting assets are included in the Consolidated Statements of Net Assets as investments.

**7. Revolving Line of Credit**

In April 2002, The UCLA Foundation obtained a revolving line of credit for \$25 million from the Bank of New York expiring in April 2012, which is collateralized by cash and securities. There were no outstanding loan balances as of June 30, 2008 and 2007. In FY08, the line of credit was increased to \$40 million.

**8. Securities Lending**

The UCLA Foundation has a securities lending agreement with the Bank of New York Mellon. A combination of cash, letter of credit, U.S. government securities and other specifically approved non-U.S. investments collateralize the loaned securities. Collateral required is at least 102% of the current market value of the loaned securities. Income earned from the lending transactions is recorded as investment income. The UCLA Foundation carries the loaned securities as assets in the Consolidated Statement of Net Assets. In addition, The UCLA Foundation has recorded an asset and an offsetting liability of \$65.9 million and \$47.6 million as of June 30, 2008 and 2007, respectively, to reflect the cash collateral related to the lent securities under the securities lending agreement.

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**8. Securities Lending (Continued)**

The Foundation's lending agreement with Bank of New York Mellon includes restrictions for the investment of cash collateral including the type of investments allowed, minimum credit ratings and other policies and guidelines to manage credit risk and concentration risk. Additionally, Bank of New York Mellon indemnifies the Foundation against borrower default. These transactions are short-term in nature and therefore there is no significant interest rate risk associated with them. In addition, these investments are not subject to custody risk.

Schedules summarizing the securities lending composition of investments, credit risk profile, concentration risk profile, and interest rate risk profile are presented as follows.

**Securities Lending – Composition of Investments**

*(in thousands)*

|  | <b>2008</b>      | <b>2007</b>      |
|--|------------------|------------------|
| <b>Securities lent</b>                       |                  |                  |
| <b>For cash collateral</b>                   |                  |                  |
| Equity securities                            |                  |                  |
| Domestic                                     | \$ 64,052        | \$ 45,812        |
| Foreign                                      | <u>—</u>         | <u>—</u>         |
| Total securities lent for cash collateral    | <u>64,052</u>    | <u>45,812</u>    |
| <b>For securities collateral</b>             |                  |                  |
| Equity securities                            |                  |                  |
| Domestic                                     | <u>—</u>         | <u>—</u>         |
| Total securities lent                        | <u>\$ 64,052</u> | <u>\$ 45,812</u> |
| <b>Collateral received</b>                   |                  |                  |
| Cash   | <u>\$ 65,892</u> | <u>\$ 47,600</u> |
| Total cash collateral received               | <u>\$ 65,892</u> | <u>\$ 47,600</u> |
| <b>Investment of Cash Collateral</b>         |                  |                  |
| Fixed income securities                      |                  |                  |
| Other U.S. dollar denominated                |                  |                  |
| Corporate bonds                              | \$ 9,524         | \$ 11,583        |
| Repurchase agreements                        | 22,064           | 175              |
| Corporate – asset-backed securities          | 2,250            | 3,226            |
| Certificates of deposit/time deposits        | 15,017           | 24,074           |
| Commingled Funds – money market              | 10,019           | —                |
| Other (Bank Notes)                           | <u>7,018</u>     | <u>8,542</u>     |
| Total investment of cash collateral          | <u>\$ 65,892</u> | <u>\$ 47,600</u> |
| <b>Securities Lending Income and Expense</b> |                  |                  |
| Securities lending income                    | \$ 2,278         | \$ 3,507         |
| Securities lending fees and rebates          | <u>(2,044)</u>   | <u>(3,388)</u>   |
| Securities lending investment income, net    | <u>\$ 234</u>    | <u>\$ 119</u>    |

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**8. Securities Lending (Continued)**

**Securities Lending – Credit Risk Profile of Foundation Investments**

| <i>(in thousands)</i>                      | <b>2008</b>      | <b>2007</b>      |
|--|------------------|------------------|
| <b>Fixed income securities</b>             |                  |                  |
| Other U.S. dollar denominated              |                  |                  |
| AAA  | \$ 7,272         | \$ 8,270         |
| AA   | 7,502            | 23,085           |
| A  | 19,034           | 16,070           |
| Not rated                                  | <u>22,065</u>    | <u>175</u>       |
| Commingled Fund – money market (Not Rated) | <u>10,019</u>    | <u>–</u>         |
| Total investment of cash collateral        | <u>\$ 65,892</u> | <u>\$ 47,600</u> |

**Securities Lending – Concentration Risk Profile of Foundation Investments**

| <i>(in thousands)</i>                | <b>2008</b> | <b>2007</b> |
|--------------------------------------|-------------|-------------|
| <b>Issuer</b>                        |             |             |
| General Electric Capital Corporation | \$ –        | \$ 3,039    |
| Nordea Bank Yankee                   | –           | 3,011       |
| Deutsche Bank AG Yankee              | –           | 3,009       |
| Bank of Ireland Yankee               | –           | 3,008       |
| Calyon Yankee                        | –           | 3,007       |
| Suntrust Bank                        | –           | 3,001       |
| Goldman Sachs Group                  | 10,019      | 2,502       |
| Daiwa Securities America Inc         | 22,065      | –           |

At June 30, 2008, the threshold for concentration risk was \$3,295,000 (5% of total cash collateral invested of \$65,892,000). At June 30, 2007, the threshold for concentration risk was \$2,380,000 (5% of total cash collateral invested of \$47,600,000).

**Securities Lending – Interest Rate Risk Profile of Foundation Investments**

| <i>(weighted average maturity in days)</i> | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|
| <b>Fixed income securities</b>             |             |             |
| Other U.S. dollar denominated              |             |             |
| Corporate bonds                            | 43.4        | 24.7        |
| Repurchase agreements                      | 1.0         | 2.0         |
| Corporate – asset-backed securities        | 15.1        | 25.0        |
| Certificates of deposit/time deposits      | 14.6        | 14.6        |
| Bank Notes                                 | 23.4        | 31.6        |
| Commingled funds – money market            | 1.0         | –           |

Investments highly sensitive to changes in interest rates include asset-backed securities of \$2,250,000 and \$3,226,000 for fiscal year 2008 and 2007, respectively. The weighted average maturity is 772 days and 225 days for fiscal year 2008 and 2007, respectively.

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**9. Commitments**

As of June 30, 2008, The UCLA Foundation has contractual commitments to invest an additional \$186 million in various limited partnership investments through December 31, 2020.