

Approved by the Audit Committee (September 11, 2012)
Approved by The UCLA Foundation Board of Directors (September 21, 2012)

The UCLA Foundation

Financial Statements

June 30, 2012 and 2011

The UCLA Foundation
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June 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors of
The UCLA Foundation

In our opinion, the accompanying statements of net position and the related statements of revenues, expenses and changes in net position 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, 2012 and 2011, 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 accompanying management's discussion and analysis on pages 2 through 5 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 the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, reading "PricewaterhouseCoopers LLP".

September 17, 2012

The UCLA Foundation

Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

The UCLA Foundation, formerly the UCLA Progress Fund, Inc., was established in 1945. The primary purpose of The UCLA Foundation ("The Foundation") is to encourage financial support for University of California, Los Angeles ("UCLA") through private gifts. In addition, The Foundation provides an 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 Foundation's financial performance presents an overview of its financial activities for the fiscal year ended June 30, 2012 ("FY12") with selected comparative information for the fiscal year ended June 30, 2011 ("FY11"). This discussion and analysis has been prepared by management and should be read in conjunction with and is qualified in its entirety by the accompanying audited financial statements and footnotes.

Financial Highlights

In FY12, The Foundation's endowed pool experienced a negative investment return of 1.5%, as a result of a weakened economy and market volatility. The Foundation's net position, which represents the excess of total assets over total liabilities, decreased by \$30.3 million to \$1.7 billion as of June 30, 2012, primarily a result of an operating loss and negative investment returns. Total assets decreased 3% to approximately \$2.0 billion and total liabilities decreased 9% to \$229.8 million as of June 30, 2012.

The Foundation's revenue in the form of donor contributions totaled \$171.6 million for FY12, a 51% decrease as compared to FY11. To support campus initiatives, The Foundation's expenditures in the form of grants and transfers to the campus increased 24% to \$182.3 million over FY11. The decreased contribution revenue combined with increased campus support and external distributions of \$43.4 million resulted in operating loss of \$54.1 million for FY12 as compared to an operating income of \$199.3 million in FY11. Due to negative investment returns in FY12, The Foundation had a non-operating loss of \$24.8 million. Other income in the form of private gifts of permanent endowments totaled \$48.6 million.

Using This Report

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

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

The Statements of Net Position include all assets and liabilities. The Statements of Revenues, Expenses and Changes in Net Position present revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating; with gifts reported as operating revenues and investment results reported as non-operating revenues. These statements are prepared using the accrual basis of accounting. Another way to assess the financial health of The Foundation is to look at the Statements of Cash Flows. Its primary purpose is to provide relevant information about the sources and uses of cash of an entity during a given period.

The UCLA Foundation
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011

Condensed Statements of Net Position

(in thousands of dollars)

	2012		2011		2010	
Assets						
Current assets	\$ 207,626	11 %	\$ 240,805	12 %	\$ 228,123	15 %
Non-current assets	1,761,862	89	1,781,915	88	1,327,091	85
Total assets	1,969,488	100	2,022,720	100	1,555,214	100
Liabilities						
Current liabilities	194,492	85	217,142	86	194,707	84
Non-current liabilities	35,268	15	35,550	14	37,932	16
Total liabilities	229,760	100	252,692	100	232,639	100
Net position						
Restricted						
Non-expendable	707,493	41	687,924	39	569,629	43
Expendable	900,247	52	886,375	50	749,331	57
Unrestricted	131,988	7	195,729	11	3,615	0
Total net position	\$ 1,739,728	100 %	\$ 1,770,028	100 %	\$ 1,322,575	100 %

The Condensed Statements of Net Position show assets, liabilities and net position for fiscal years 2012, 2011 and 2010. In FY12, The Foundation's total assets decreased by \$53.2 million to approximately \$2.0 billion. Current assets decreased by \$33.2 million to \$207.6 million and represented 11% of total assets (2012: 11%, 2011: 12%; 2010: 15%). Current assets consist primarily of short-term investments, pledges receivable within one year and cash collateral invested under a securities lending agreement.

Non-current assets decreased by \$20.0 million to \$1.8 billion and comprised 89% of total assets (2012: 89%, 2011: 88%, 2010: 85%). Non-current assets consist primarily of long term investments and pledges receivable due after one year.

In FY12, The Foundation's total liabilities decreased by \$22.9 million to \$229.8 million. Current liabilities decreased by \$22.7 million to \$194.5 million and comprised 85% of total liabilities (2012: 85%, 2011: 86%, 2010: 84%). Current liabilities consist primarily of amounts held for others, which decreased by \$4.8 million and a payable under the securities lending agreement, which decreased by \$19.9 million from FY11 to FY12.

Non-current liabilities decreased by \$0.3 million to \$35.3 million and comprised 15% of total liabilities (2012: 15%, 2011: 14%, 2010: 16%). Non-current liabilities consist of annuities payable and liabilities to life beneficiaries.

The UCLA Foundation
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011

Condensed Statements of Revenues, Expenses and Changes in Net Position

<i>(in thousands of dollars)</i>	2012	2011	2010
Operating revenues and expenses			
Contributions	\$ 171,571	\$ 351,611	\$ 144,135
Expenses	225,684	152,315	137,292
Operating (loss) income	(54,113)	199,296	6,843
Non-operating revenues (expenses)			
Interest, dividends and distributions, net	19,040	31,647	30,309
Realized gains (losses) on investments	17,820	25,837	(4,670)
(Decrease) increase in fair value of investments	(59,510)	114,366	77,365
Change in value of split interest agreements	(2,160)	(708)	(5,491)
Non-operating (loss) income	(24,810)	171,142	97,513
Private gifts of permanent endowments	48,623	77,015	53,353
(Decrease) increase in net position	(30,300)	447,453	157,709
Net position			
Beginning of year	1,770,028	1,322,575	1,164,866
End of year	\$ 1,739,728	\$ 1,770,028	\$ 1,322,575

The Condensed Statements of Revenues, Expenses and Changes in Net Position summarize operating income (loss), non-operating income (loss) and Private gifts of permanent endowments for fiscal years 2012, 2011 and 2010. During FY12, The Foundation's net position decreased \$30.3 million primarily due to \$24.8 million of non-operating investment losses and lower gifts.

In FY12, The Foundation recorded a \$54.1 million operating loss, as The Foundation's expenditures exceeded contributions, mainly due to increased support to campus and philanthropic distributions to outside charities. As compared to the previous years, operating revenues decreased to \$171.6 million in FY12, from \$351.6 million in FY11 and \$144.1 million in FY10. Operating expenses, including grants and transfers to the campus, increased by \$73.4 million over FY11 to \$225.7 million.

The UCLA Investment Company

In FY12, The Foundation's Board of Directors formed The UCLA Investment Company ("The Company"), a nonprofit organization, to assume oversight of the UCLA endowment and other assets under management by the Foundation. The creation of The Company reflects a standard practice in the endowment industry to have a professional management structure once managed assets reached \$500 million.

The Company is led by the President/Chief Investment Officer, who is also the Chief Investment Officer of The Foundation, and is governed by a 12-member board, including seven volunteers with deep knowledge of the investment industry, finance and business who are appointed by The Foundation's Board of Directors, many of whom are also on the Board of Directors of The Foundation. In FY12, 5 full time staff were hired, including the President and Chief Investment Officer, two Investment Directors, an Associate and an Executive Assistant.

Since The Foundation controls The Company, The Company is presented as a blended component in The Foundation's financial statements. The Company's operating costs for the stub period from October 1, 2011 to June 30, 2012 are \$2.0 million and are included in the accompanying financial statements.

The UCLA Foundation
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011

Factors Impacting Future Periods

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

The UCLA Foundation
Statements of Net Position
June 30, 2012 and 2011

(in thousands of dollars)

	2012	2011
Assets		
Current assets		
Cash	\$ 1,269	\$ 1,469
Short-term investments	137,902	160,369
Accounts and other receivables	18,637	16,059
Accrued investment income	612	871
Funds held in trust by others	550	-
Pledges receivable, net	45,711	39,234
Collateral under securities lending agreement	2,945	22,803
Total current assets	<u>207,626</u>	<u>240,805</u>
Non-current assets		
Long-term investments	1,481,446	1,549,627
Investments in land and buildings	23,158	24,516
Funds held in trust by others	16,653	13,406
Accounts and other receivables	8,941	11,943
Pledges receivable, net	231,664	182,423
Total non-current assets	<u>1,761,862</u>	<u>1,781,915</u>
Total assets	<u>\$ 1,969,488</u>	<u>\$ 2,022,720</u>
Liabilities and Net Position		
Current liabilities		
Accounts and grants payable	\$ 4,200	\$ 2,191
Annuities payable	2,959	2,760
Liabilities to life beneficiaries	2,441	2,647
Amounts held for others	181,947	186,741
Payable under securities lending agreement	2,945	22,803
Total current liabilities	<u>194,492</u>	<u>217,142</u>
Non-current liabilities		
Annuities payable	17,001	15,555
Liabilities to life beneficiaries	18,267	19,995
Total non-current liabilities	<u>35,268</u>	<u>35,550</u>
Total liabilities	<u>229,760</u>	<u>252,692</u>
Net position		
Restricted for		
Non-expendable		
Endowments	690,833	669,808
Annuity and life income fund	16,660	18,116
Expendable		
Endowment earnings	128,951	153,950
Annuity and life income fund	13,258	14,279
Funds functioning as endowments	373,121	390,870
Gifts	384,917	327,276
Unrestricted	131,988	195,729
Total net position	<u>1,739,728</u>	<u>1,770,028</u>
Total liabilities and net position	<u>\$ 1,969,488</u>	<u>\$ 2,022,720</u>

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

The UCLA Foundation
Statements of Revenues, Expenses and Changes in Net Position
June 30, 2012 and 2011

(in thousands of dollars)

	2012	2011
Operating revenues		
Contributions	\$ 171,571	\$ 351,611
Total operating revenues	<u>171,571</u>	<u>351,611</u>
Operating expenses		
Gift fund distributions	206,619	133,799
Gift administration fees	10,890	9,846
UCLA Chancellor's priorities	6,000	6,000
UCLA Telemarketing program	1,000	1,300
General expenditures	875	970
UCLA Alumni association	300	400
Total operating expenses	<u>225,684</u>	<u>152,315</u>
Operating (loss)/income	<u>(54,113)</u>	<u>199,296</u>
Non-operating revenues (expenses)		
Interest, dividends and distributions, net	18,796	31,542
Securities lending income, net	244	105
Realized gains on investments	17,820	25,837
(Decrease)/increase in fair value of investments	(59,510)	114,366
Change in value of split interest agreements	<u>(2,160)</u>	<u>(708)</u>
Non-operating (loss)/income	<u>(24,810)</u>	<u>171,142</u>
(Loss)/income before other changes in net position	<u>(78,923)</u>	<u>370,438</u>
Other changes in net position		
Private gifts of permanent endowments	<u>48,623</u>	<u>77,015</u>
(Decrease)/increase in net position	<u>(30,300)</u>	<u>447,453</u>
Net position		
Beginning of year	<u>1,770,028</u>	<u>1,322,575</u>
End of year	<u>\$ 1,739,728</u>	<u>\$ 1,770,028</u>

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

The UCLA Foundation
Statements of Cash Flows
June 30, 2012 and 2011

(in thousands of dollars)

	2012	2011
Cash flows from operating activities		
Contributions	\$ 109,498	\$ 263,669
Operating expenses	(223,675)	(151,250)
Beneficiary payments, net	(3,929)	(3,635)
Net cash (used in)/provided by operating activities	(118,106)	108,784
Cash flows from non-capital financing activities		
Gifts and grants received for other than capital purposes		
Private gifts for endowment purposes	37,635	59,611
Net cash provided by non-capital financing activities	37,635	59,611
Cash flows from investing activities		
Proceeds from sales of investments	445,241	298,005
Purchases of investments	(383,586)	(496,348)
Interest, dividends and distributions, net	18,616	30,784
Proceeds from revolving line of credit	60,000	40,000
Payments under revolving line of credit	(60,000)	(40,000)
Net cash provided by/(used in) investing activities	80,271	(167,559)
Net (decrease)/increase in cash	(200)	836
Cash		
Beginning of year	1,469	633
End of year	\$ 1,269	\$ 1,469
Reconciliation of operating (loss)/income to net cash (used in)/provided by operating activities		
Operating (loss)/income	\$ (54,113)	\$ 199,296
Adjustments to reconcile operating (loss)/income to net cash (used in)/provided by operating activities		
Non-cash gifts	(7,110)	(72,277)
Provision for uncollectible pledges receivable	12,254	14,090
Changes in assets and liabilities		
Accounts and other receivables	432	3,708
Pledges receivable, net	(67,972)	(31,201)
Funds held in trust by others	(1,188)	(2,248)
Accounts and grants payable	2,009	932
Annuities payable	(367)	(1,580)
Liabilities to life beneficiaries	(2,010)	(1,895)
Amounts held for others	(41)	(41)
Net cash (used in)/provided by operating activities	\$ (118,106)	\$ 108,784
Supplemental non-cash activities information		
Gifts of securities and real property – operating	\$ 7,110	\$ 72,277
Gifts of securities and real property – for endowment purposes	11,060	17,443
Beneficial interest in charitable remainder trust	2,111	618
Securities lending activity	(19,858)	1,467

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

The UCLA Foundation

Notes to Financial Statements

June 30, 2012 and 2011

1. Organization

The UCLA Foundation, formerly the UCLA Progress Fund, Inc., was established in 1945. The primary 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 an 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, The UCLA Foundation's net position does not include any monies held but not yet expended by UCLA.

In 2012, The UCLA Foundation's Board of Directors formed The UCLA Investment Company ("The Company"), a nonprofit organization, to assume oversight and management of the UCLA endowment and other assets under management by The UCLA Foundation. The Company is led by the President/Chief Investment Officer, who is also the Chief Investment Officer of The UCLA Foundation, and is governed by a 12-member board, including seven volunteers, many of whom are also on the Board of Directors of The UCLA Foundation. Since The UCLA Foundation controls The Company, The Company is presented as a blended component in The UCLA Foundation's financial statements. Additionally, The Company has 5 full time employees.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements include the accounts of The UCLA Foundation, The UCLA Foundation Trusts, The UCLA Foundation Pooled Income Fund, and The UCLA Investment Company (together "The UCLA Foundation"). The statements have been prepared using accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board ("GASB"). The statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Recently Adopted New Accounting Pronouncement

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* ("GASB 63"), effective for The UCLA Foundation's fiscal year beginning July 1, 2012; however, The UCLA Foundation early adopted GASB 63 effective for the fiscal year beginning July 1, 2011. GASB 63 modifies the presentation of deferred inflows and deferred outflows in the financial statements. Implementation of GASB 63 had no effect on The UCLA Foundation's net position or changes in net position for the fiscal years ended June 30, 2012 ("FY12") and June 30, 2011 ("FY11").

A summary of the significant accounting policies applied in the preparation of these 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

2. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

based on prices or quotations from actively traded 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. Management reviews and evaluates the valuation received from third parties and believes the carrying amount to be a reasonable estimate of fair value. As limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

Short-term investments consist primarily of the Regent's Short-Term Investment Pool ("Regent's STIP"). Short-term investments are carried at cost, which approximates fair 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.

Pledges Receivable

Pledges are written unconditional promises to make future payments. Pledges meeting the requirements specified by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* ("GASB 33") are included in the financial statements as pledges receivable and recognized as revenue in the period pledged. Pledges extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is accreted and 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, which depend on the occurrence of a specified future or uncertain event such as matching gifts from other donors, plus all pledges for endowment purposes, 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 value at the date of gift. Donated properties are annually recorded at present market value less estimated selling expenses.

Annuities Payable

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

2. Summary of Significant Accounting Policies (Continued)

Net Position

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

Restricted – non-expendable net position includes permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing income and appreciation that may be expended or added to principal in accordance with the donor's wishes. Trust resources that are not expendable upon maturity are also classified as restricted non-expendable net position.

Restricted – expendable net position relates to contributions designated by donors for use by particular entities or programs or for specific purposes or functions of UCLA. They also include funds functioning as endowments, of which the corpus can be invaded. Income and change in fair market value of endowment investments are classified as restricted-expendable net position unless otherwise specified by the donor. Trust resources that are expendable upon maturity are also classified as restricted expendable net position.

Unrestricted net position is the net position of The UCLA Foundation that is not subject to donor-imposed restrictions, including donor-advised funds.

Revenues and Expenses

Contributions and pledges meeting the requirements of GASB 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 in the period in which the disbursement has been approved or expense incurred.

Non-operating revenues and expenses include investment income and net realized gains/(losses) on the sale of investments and change in unrealized appreciation/(depreciation) in the fair value of investments held at the end of the period.

Gifts for permanent endowment purposes and other additions of permanently restricted net position are classified under other changes in net position.

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 UCLA 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

Notes to Financial Statements

June 30, 2012 and 2011

2. Summary of Significant Accounting Policies (Continued)

Endowments (Continued)

The UCLA Foundation follows the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") adopted by the State of California in January, 2009. UPMIFA does not set specific expenditure limits; instead, a charity can spend the amount the charity deems prudent after considering the donor's intent that the endowment continue permanently, the purpose of the fund, and relevant economic factors. The annual payout rate was 5.3% and 5.2% of the average market value of the endowment investment pool on a rolling 36-month basis, for FY12 and FY11, respectively. The Board of Directors of The UCLA Foundation reviews and approves this rate annually. 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.

The UCLA Foundation is also an income beneficiary of a perpetual trust and a remainderman of certain charitable trusts where the assets are invested and administered by outside trustees. The UCLA Foundation records its interest in these trusts at fair value, which approximates the present value of the estimated future cash receipts from these trusts.

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

Notes to Financial Statements

June 30, 2012 and 2011

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 their lifetime or that of their beneficiaries. Assets contributed are separately invested and are used to fund payments to the annuitants. Annuities that mature are used to fulfill the purposes that were set forth in the original annuity agreement.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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.

Comparative Information and Reclassification

The UCLA Foundation's financial statements include comparative financial information. Certain prior year amounts have been reclassified to conform to the current year presentation.

3. Investments

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* ("GASB 40"), 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.

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. Land and buildings and funds held in trust by others where The UCLA Foundation is a beneficiary are also included in the Composition of Investments below.

The UCLA Foundation
Notes to Financial Statements
June 30, 2012 and 2011

3. Investments (Continued)

Composition of Investments *(by investment type)*

(in thousands of dollars)

	2012	2011
Equity securities		
Domestic	\$ 31,914	\$ 46,892
Foreign	585	55,163
Subtotal equity securities	<u>32,499</u>	<u>102,055</u>
Fixed income securities		
U.S. Government guaranteed		
U.S. Treasury bills	74	-
U.S. Treasury notes	8,798	8,438
U.S. Treasury bonds	247	253
Subtotal U.S. Treasury	<u>9,119</u>	<u>8,691</u>
U.S. Government backed – asset-backed securities	477	8
Subtotal U.S. government guaranteed	<u>9,596</u>	<u>8,699</u>
Other U.S. dollar denominated		
U.S. Agencies – asset-backed securities	1,166	1
Corporate – asset-backed securities	16,276	-
Subtotal Other U.S. dollar denominated	<u>17,442</u>	<u>1</u>
Commingled funds and others		
Commingled funds – absolute return	395,718	449,908
Commingled funds – balanced funds	3,896	4,031
Commingled funds – U.S. equity funds	191,375	208,364
Commingled funds – non-U.S. equity funds	207,763	158,470
Commingled funds – U.S. bond funds	162,293	185,505
Commingled funds – non-U.S. bond funds	17,331	2,776
Commingled funds – real estate investment trusts	37,214	37,768
Commingled funds – money market funds	147,007	183,600
Investment derivatives	286	(1,081)
Private equity	208,924	189,729
Real estate	95,493	86,002
Funds held in trust by others	17,203	13,406
Other investments	115,669	118,685
Total investments	<u>\$ 1,659,709</u>	<u>\$ 1,747,918</u>

The UCLA Foundation
Notes to Financial Statements
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3. Investments (Continued)

Composition of Investments *(as classified on the Statements of Net Position)*

<i>(in thousands of dollars)</i>	2012	2011
Current		
Short-term investments	\$ 137,902	\$ 160,369
Funds held in trust by others	550	-
Non-current		
Long-term investments	1,481,446	1,549,627
Investments in land and buildings	23,158	24,516
Funds held in trust by others	16,653	13,406
Total investments	<u>\$ 1,659,709</u>	<u>\$ 1,747,918</u>

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The Credit Risk Profile of 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 Investments

<i>(in thousands of dollars)</i>	2012	2011
Fixed income securities		
U.S. government guaranteed	<u>\$ 9,596</u>	<u>\$ 8,699</u>
Other U.S. dollar denominated		
AAA	1,166	1
BBB	819	-
BB	697	-
B	779	-
CCC or below	11,728	-
Not rated	2,253	-
Total other U.S. dollar denominated	<u>17,442</u>	<u>1</u>
Commingled funds		
U.S. bond funds: Not rated	162,293	185,505
Non-U.S. bond funds: Not rated	17,331	2,776
Money market funds: Not rated	147,007	183,600
Total commingled funds	<u>326,631</u>	<u>371,881</u>
Total funds subject to credit risk	<u>\$ 353,669</u>	<u>\$ 380,581</u>

The UCLA Foundation
Notes to Financial Statements
June 30, 2012 and 2011

3. Investments (Continued)

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 UCLA Foundation maintains investment policies that establish thresholds for holdings of individual securities. The UCLA Foundation does not have any holdings meeting or exceeding these threshold levels.

Interest Rate Risk

Interest rate risk is the risk that fixed income securities will decline because of rising interest rates. The UCLA Foundation measures interest rate risk using the effective duration method. The Interest Rate Risk schedule summarizes the average effective duration of its fixed income investments. The UCLA 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 Barclays Capital 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 Investments & Investments Sensitive to Changes in Interest Rates

<i>(effective duration in years)</i>	2012	2011
Fixed income securities		
U.S. Government		
U.S. Treasury bills	0.1	0.0
U.S. Treasury notes	3.5	3.2
U.S. Treasury bonds	3.9	4.6
U.S. Government backed – asset backed securities	27.2	3.7
Other U.S. dollar denominated		
U.S. agencies – asset-backed securities	29.5	0.2
Corporate - asset-backed securities	23.4	0.0
Commingled funds – U.S. bond funds	4.4	4.3
Commingled funds – non-U.S. bond funds	2.6	6.2
Commingled funds – money market funds	1.8	1.4

Investments highly sensitive to changes in interest rates

(in thousands of dollars)

Mortgage backed securities	\$	5,435	\$	9
Collateralized mortgage obligations		12,486		-

The UCLA Foundation
Notes to Financial Statements
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3. Investments (Continued)

Foreign Currency Risk

Exposure from foreign currency risk results from investments in foreign currency-denominated equity or fixed income investments. The UCLA Foundation holds 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.

Foreign Currency Risk Associated with Investments

(in thousands of dollars)

	2012	2011
Equity securities		
Australian Dollar	\$ -	\$ 3,493
Brazilian Real	-	406
British Pound	24	10,705
Canadian Dollar	-	641
Danish Krone	-	801
Euro	22	11,867
Hong Kong Dollar	-	8,066
Indian Rupee	-	-
Japanese Yen	-	9,437
Miscellaneous	539	-
Norwegian Krone	-	1,251
Singapore Dollar	-	478
South African Rand	-	582
Swedish Krona	-	1,307
Swiss Franc	-	6,129
	<hr/>	<hr/>
Total exposure to foreign currency risk	\$ 585	\$ 55,163

Commingled funds

Various currency denominations		
Balanced funds	\$ 881	\$ 1,013
Non-U.S. equity	161,206	101,384
U.S. bond	11,209	1,182
Non-U.S. bond	9,369	-
Real estate investment trusts	9,101	3,264

Futures and Options Contracts

The UCLA 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

For parties invested in The UCLA Foundation's unendowed investment pool for FY12, the return was 2.3% (FY11: 2.4%). The return on the endowed investment pool for FY12 was (1.5%) (FY11: 16.7%). The return on the combined planned giving investment pools for FY12 was 1.8% (FY11: 18.5%).

The UCLA Foundation
Notes to Financial Statements
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5. Endowment Payout

The endowment payout to donor-restricted endowment funds was comprised of the following:

<i>(in thousands of dollars)</i>	2012	2011
Investment income, net	\$ 12,602	\$ 25,829
Net accumulated gains and corpus	45,269	28,362
	<u>\$ 57,871</u>	<u>\$ 54,191</u>

In addition to the above, The UCLA Foundation made payout available to affiliated entities and unrestricted funds of \$15.8 million in FY12 and \$9.7 million in FY11, bringing the total endowed investment pool payout to \$73.7 million in FY12 and \$63.9 million in FY11.

6. Pledges Receivable

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

<i>(in thousands of dollars)</i>	2012	2011
Pledges receivable	\$ 374,974	\$ 300,745
Less		
Allowance for uncollectible pledges	(37,805)	(26,631)
Discount for future payments	(59,794)	(52,457)
Pledges receivable, net	<u>\$ 277,375</u>	<u>\$ 221,657</u>
Current pledges receivable, net	\$ 45,711	\$ 39,234
Non-current pledges receivable, net	231,664	182,423
	<u>\$ 277,375</u>	<u>\$ 221,657</u>

Management evaluates the collectibility of its receivables and records an allowance for estimated uncollectible amounts. The UCLA Foundation recorded a provision for uncollectible pledges of \$12.2 million in FY12 and \$14.1 million in FY11 and this is recorded as a reduction in contributions. Pledges due beyond one year have been discounted at an annual rate of 2.4% for pledges received in FY12 and 2.5% for FY11. 62% of the pledges receivable, net of discount, are from five donors in FY12 as compared to 67% in FY11.

7. Amounts Held For Others

Amounts held for others as of June 30, 2012 of \$181.9 million (2011: \$186.7 million) represented amounts held by The UCLA Foundation under agency relationships with various support groups and other affiliated entities of UCLA. Such amounts are not assets owned by or contributed to The UCLA Foundation and, accordingly, are recorded as liabilities and not as revenue. The offsetting assets are included in the Statements of Net Position as investments.

The UCLA Foundation
Notes to Financial Statements
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8. Revolving Line of Credit

The UCLA Foundation has a revolving line of credit with the Bank of New York Mellon, which is collateralized by securities. The line of credit agreement was revised as of June 22, 2011 whereby the amount was increased to \$60 million from \$40 million and the expiration date was extended through April, 2014. There were no loan balances outstanding as of June 30, 2012 or June 30, 2011.

9. Securities Lending

The UCLA Foundation has a securities lending agreement with the Bank of New York Mellon. Income earned from the lending transactions is recorded as investment income. The UCLA 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. The UCLA Foundation executed an amendment to this agreement in October 2008 which restricts the collateral to securities issued or fully guaranteed by the U. S. government and any agency, instrumentality or establishment of the U.S. government and repurchase and reverse repurchase agreements involving approved investments with counterparties authorized in the securities lending agreement. As of June 30, 2012, The UCLA Foundation continued to hold investments which met the previous criteria. These will be held until maturity.

Loans of domestic and foreign securities are collateralized at 102% and 105% of the fair value of securities lent, respectively. Bank of New York Mellon marks to market the value of all loaned securities on each business day and demand from the appropriate borrowers additional collateral if the value of the collateral falls to less than 100% of the fair value of the securities lent. Additionally, Bank of New York Mellon indemnifies The UCLA Foundation against borrower default. These transactions are short-term in nature and therefore there is no significant interest rate risk associated with them. These investments are not subject to custody risk.

The UCLA Foundation carries the loaned securities as assets in the Statements of Net Position. In addition, The UCLA Foundation has recorded an asset and an offsetting liability of \$2.9 million and \$22.8 million as of June 30, 2012 and 2011, respectively, to reflect the cash collateral related to the lent securities under the securities lending agreement.

The UCLA Foundation
Notes to Financial Statements
June 30, 2012 and 2011

9. Securities Lending (Continued)

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 of dollars)

	2012	2011
Securities lent		
For cash collateral		
Equity securities – domestic	\$ 2,873	\$ 13,599
Equity securities – foreign	-	8,425
Total securities lent for cash collateral	<u>\$ 2,873</u>	<u>\$ 22,024</u>
Collateral received		
Cash	\$ 2,945	\$ 22,803
Total cash collateral received	<u>\$ 2,945</u>	<u>\$ 22,803</u>
Investment of cash collateral		
Fixed income securities		
U.S. dollar denominated		
Repurchase agreements	\$ 2,945	\$ 22,803
Total investment of cash collateral	<u>\$ 2,945</u>	<u>\$ 22,803</u>
Securities lending income and expense		
Securities lending income	\$ 344	\$ 149
Securities lending fees and rebates	(100)	(44)
Securities lending income, net	<u>\$ 244</u>	<u>\$ 105</u>

Securities Lending – Credit Risk Profile of Foundation Investments

(in thousands of dollars)

	2012	2011
Fixed income securities		
U.S. dollar denominated		
Not rated	\$ 2,945	\$ 22,803
Total investment of cash collateral	<u>\$ 2,945</u>	<u>\$ 22,803</u>

The UCLA Foundation
Notes to Financial Statements
June 30, 2012 and 2011

9. Securities Lending (Continued)

Securities Lending – Concentration Risk Profile of Foundation Investments

<i>(in thousands of dollars)</i>	2012	2011
Issuer		
Citibank	\$ 699	\$ 5,415
Deutsche Bank	-	1,140
HSBC	700	5,416
J P Morgan Chase	-	5,416
Merrill Lynch	700	-
Mizuho	699	-
Royal Bank of Canada	-	5,416
UBS	147	-

At June 30, 2012, the threshold for concentration risk was \$0.1 million (5% of total cash collateral invested of \$2.9 million). At June 30, 2011, the threshold for concentration risk was \$1.1 million (5% of total cash collateral invested of \$22.8 million).

Securities Lending – Interest Rate Risk Profile of Foundation Investments

<i>(weighted average maturity in days to next reset date)</i>	2012	2011
Fixed income securities		
U.S. dollar denominated		
Repurchase agreements	3.0	1.0

There were no investments highly sensitive to changes in interest rates for FY12 and FY11.

10. Commitments

As of June 30, 2012, The UCLA Foundation has contractual commitments to invest an additional \$133.5 million in various limited partnership investments through December 31, 2021.