

The UCLA Foundation
Consolidated Financial Statements
For the Year Ended June 30, 2004 and 2003

The UCLA Foundation
Audited Consolidated Financial Statements
For the Year Ended June 30, 2004 and 2003

Table of Contents

	Page
Report of Independent Auditors	1
Management's Discussion and Analysis (Unaudited)	2
Consolidated Financial Statements:	
Consolidated Statements of Net Assets	6
Consolidated Statements of Revenues, Expenses and Changes in Net Assets	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9

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, 2004 and 2003, 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 5 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

August 27, 2004

The UCLA Foundation

Management's Discussion and Analysis

(Unaudited)

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 financial performance present an overview of The UCLA Foundation's financial activities for the fiscal year ended June 30, 2004 with selected comparative information for the year ended June 30, 2003. 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

The UCLA Foundation has continued to maintain a strong financial position as of June 30, 2004 with assets exceeding a billion dollars and with total liabilities of \$156 million. Net assets, which represent the excess of total assets over total liabilities, grew by \$89 million for the year ended June 2004. The UCLA Foundation's Net Assets continued to grow in fiscal year 2004. Both endowed gifts and investment gains are responsible for this growth despite the increases in operating expenses during this period. This change is summarized below:

	<i>(in millions)</i>		
	2004	2003	2002
Operating revenue/contributions	\$ 97	\$ 87	\$241
Operating expenses	<u>121</u>	<u>97</u>	<u>100</u>
Operating results	(24)	(10)	141
Investment performance and other non-operating items	<u>113</u>	<u>42</u>	<u>(14)</u>
Change in net assets	<u>\$ 89</u>	<u>\$ 32</u>	<u>\$127</u>

The increase in operating expenses for fiscal year 2004 is due to drawdowns by campus departments who are relying more on their Foundation resources than in prior years. Operating expenses for fiscal year 2003 were consistent with fiscal year 2002, as The UCLA Foundation has generally maintained the support provided for programmatic purposes during the year and will strive to continue to do so as resources permit. The significant increase in operating revenue in fiscal year 2002 is attributable to significant pledge contributions.

Though the operating results were not favorable in fiscal year 2004 and 2003, a more positive result can be seen in non-operating investment performance and endowed contributions which provided an increase of over \$71 million to the net assets of the Foundation.

The UCLA Foundation

Management's Discussion and Analysis (Continued)

(Unaudited)

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, which established a fundamentally new financial reporting model for The UCLA Foundation.

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) is one indicator of The UCLA Foundation's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of The UCLA Foundation's financial health when considered with other nonfinancial 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 nonoperating, with gifts reported as operating revenue and investment results reported as nonoperating revenue. These statements are both 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 cash receipts and cash payments of an entity during a period.

Condensed Consolidated Financial Information

	2004		(in thousands) 2003		2002	
ASSETS						
Current assets	\$ 222,004	20%	\$ 228,996	23%	\$ 218,911	23%
Noncurrent assets	<u>864,698</u>	<u>80</u>	<u>780,796</u>	<u>77</u>	<u>716,957</u>	<u>77</u>
Total assets	1,086,702	100	1,009,792	100	935,868	100
LIABILITIES						
Current liabilities	110,641	71	129,059	77	89,768	71
Noncurrent liabilities	<u>45,407</u>	<u>29</u>	<u>39,156</u>	<u>23</u>	<u>36,421</u>	<u>29</u>
Total liabilities	156,048	100	168,215	100	126,189	100
NET ASSETS						
Restricted:						
Nonexpendable	329,802	35	288,118	34	267,335	33
Expendable	600,297	64	552,937	65	540,323	66
Unrestricted	<u>555</u>	<u>1</u>	<u>522</u>	<u>1</u>	<u>2,020</u>	<u>1</u>
Total net assets	<u>\$ 930,654</u>	<u>100%</u>	<u>\$ 841,577</u>	<u>100%</u>	<u>\$ 809,678</u>	<u>100%</u>

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

Current liabilities as a percent of total liabilities have decreased over the prior year (Current liabilities 2004: 71%; 2003: 77%; 2002: 71%) and this is primarily due to \$21.5 million decrease in security lending activity offset by a \$7.7 million increase in depository liabilities. The increase of fiscal year 2003 current liabilities is primarily due to the increase in security lending activity and depository liabilities.

Eighty percent (77%: 2003; 77% 2002) of The UCLA Foundation's total assets are noncurrent, consisting primarily of investments and pledges receivable. Short-term investments and pledges receivable comprise over \$171 million or 77% of the short-term assets in fiscal year 2004 as compared to \$158 million or 69% in fiscal 2003.

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

	<i>(in thousands)</i>		
	June 30, 2004	June 30, 2003	June 30, 2002
Operating revenue and expenses			
Contributions	\$ 97,075	\$ 86,791	\$ 241,599
Disbursements	<u>121,086</u>	<u>97,283</u>	<u>100,340</u>
Operating deficit	(24,011)	(10,492)	141,259
Nonoperating revenues and expenses			
Interest and dividends on investments	16,764	14,373	15,169
Realized gain (loss) on investments	39,926	(29,782)	(10,602)
Increase in market value of investments	25,194	39,790	(39,965)
Change in value of split interest agreements	<u>(6,562)</u>	<u>(2,191)</u>	<u>(3,743)</u>
Nonoperating revenue	75,322	22,190	39,141
Private gifts of permanent endowments	<u>37,766</u>	<u>20,201</u>	<u>25,032</u>
Increase in net assets	89,077	31,899	127,150
Net Assets			
Net assets, beginning of year	<u>841,577</u>	<u>809,678</u>	<u>682,528</u>
Net assets, end of year	<u>\$ 930,654</u>	<u>\$ 841,577</u>	<u>\$ 809,678</u>

The Consolidated Statements of Revenues, Expenses and Changes in Net Assets shows operating and nonoperating revenues and expenses for fiscal years 2004 and 2003. The UCLA Foundation's net assets increased by \$89 million in fiscal year 2004 as compared to fiscal year 2003 net assets increase of \$32 million. The fiscal year 2004 and 2003 increases in net assets are primarily attributable to favorable investment performance and increased levels of gifts. Increase in net assets in Fiscal 2002 is attributable to significant pledge contributions.

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

June 30, 2004 and 2003

	<i>(in thousands)</i>	
	2004	2003
Assets		
Current assets:		
Cash	\$ 3,932	\$ 771
Short-term investments	121,272	123,564
Accounts receivable	2,219	2,714
Accrued investment income	1,871	2,229
Pledges receivable, net	49,878	35,145
Notes receivable	56	297
Funds held in trust by others	2,516	2,516
Collateral under securities lending agreement	<u>40,260</u>	<u>61,760</u>
Total current assets	<u>222,004</u>	<u>228,996</u>
Noncurrent assets:		
Long-term investments	651,922	551,892
Investments in land and building	27,585	26,750
Accounts receivable	940	797
Notes receivable	451	41
Pledges receivable, net	174,439	190,478
Funds held in trust by others	<u>9,361</u>	<u>10,838</u>
Total noncurrent assets	<u>864,698</u>	<u>780,796</u>
Total assets	<u>\$ 1,086,702</u>	<u>\$ 1,009,792</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts and grants payable	\$ 9,321	\$ 14,403
Annuities payable	3,162	3,287
Deferred revenue	1,456	1,266
Liabilities to life beneficiaries	2,829	2,406
Depository liabilities	53,613	45,937
Payable under securities lending agreement	<u>40,260</u>	<u>61,760</u>
Total current liabilities	<u>110,641</u>	<u>129,059</u>
Noncurrent liabilities:		
Annuities payable	18,772	14,906
Liabilities to life beneficiaries	<u>26,635</u>	<u>24,250</u>
Total noncurrent liabilities	<u>45,407</u>	<u>39,156</u>
Total liabilities	<u>156,048</u>	<u>168,215</u>
Net assets:		
Restricted for:		
Nonexpendable:		
Endowments	314,203	273,827
Annuity and life income fund	15,599	14,291
Expendable:		
Endowment earnings	107,173	68,567
Annuity and life income fund	19,375	21,211
Funds functioning as endowments	308,536	291,383
Gifts	165,213	171,776
Unrestricted	<u>555</u>	<u>522</u>
Total net assets	<u>930,654</u>	<u>841,577</u>
Total liabilities and net assets	<u>\$ 1,086,702</u>	<u>\$ 1,009,792</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
Years Ended June 30, 2004 and 2003

	<i>(in thousands)</i>	
	2004	2003
Revenues		
Operating revenues:		
Contributions	\$ <u>97,075</u>	\$ <u>86,791</u>
Total operating revenues	<u>97,075</u>	<u>86,791</u>
Expenses		
Operating expenses and grants:		
UCLA Scholarships, research and other purposes	108,743	82,885
UCLA Chancellor's Priorities	10,345	10,854
UCLA Telemarketing program	950	1,358
General expenditures	768	738
UCLA Alumni Participation	120	380
UCLA Alumni Association	90	100
Others grants to UCLA	70	368
UCLA Frontiers of Knowledge	<u>—</u>	<u>600</u>
Total operating expenses and grants	<u>121,086</u>	<u>97,283</u>
Operating loss	<u>(24,011)</u>	<u>(10,492)</u>
Nonoperating Revenues (Expenses)		
Interest and dividends on investments	16,594	14,193
Securities lending income	170	180
Realized gains (losses) on investments	39,926	(29,782)
Increase in market value of investments	25,194	39,790
Change in value of split interest agreements	<u>(6,562)</u>	<u>(2,191)</u>
Net nonoperating revenues	<u>75,322</u>	<u>22,190</u>
Income before other changes in net assets	51,311	11,698
Other changes in net assets:		
Private gifts of permanent endowments	<u>37,766</u>	<u>20,201</u>
Increase in net assets	89,077	31,899
Net assets:		
Beginning of year	<u>841,577</u>	<u>809,678</u>
End of year	<u>\$ 930,654</u>	<u>\$ 841,577</u>

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

The UCLA Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	<i>(in thousands)</i>	
	2004	2003
Cash flows from operating activities:		
Contributions	\$ 100,723	\$ 103,560
Operating expenses and grants	<u>(122,427)</u>	<u>(80,227)</u>
Net cash (used in) provided by operating activities	<u>(21,704)</u>	<u>23,333</u>
Cash flows from noncapital financing activities:		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	<u>37,766</u>	<u>20,201</u>
Net cash provided by noncapital financing activities	<u>37,766</u>	<u>20,201</u>
Cash flows from investing activities:		
Proceeds from sales of investments	104,535	61,033
Purchases of investments	(134,558)	(122,931)
Interest and dividends on investments	17,122	14,385
Proceeds from revolving line of credit	25,000	25,000
Payments under revolving line of credit	<u>(25,000)</u>	<u>(25,000)</u>
Net cash used by investing activities	<u>(12,901)</u>	<u>(47,513)</u>
Net increase (decrease) in cash	3,161	(3,979)
Cash, beginning of year	<u>771</u>	<u>4,750</u>
Cash, end of year	<u><u>\$ 3,932</u></u>	<u><u>\$ 771</u></u>
Reconciliation of net operating revenues to net cash provided by operating activities:		
Operating loss	\$ (24,011)	\$ (10,492)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Pledge allowance	872	672
Changes in assets and liabilities:		
Accounts receivable	352	74
Pledges receivable, net	1,306	13,963
Notes receivable	(169)	450
Funds held in trust by others	1,477	2,643
Accounts and grants payable	(5,082)	13,111
Annuities payable	3,741	3,945
Deferred revenue	<u>(190)</u>	<u>(1,033)</u>
Net cash (used in) provided by operating activities	<u><u>\$ (21,704)</u></u>	<u><u>\$ 23,333</u></u>
Supplemental noncash activities information:		
Gifts of personal or real property	\$ 8	\$ 6

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

The UCLA Foundation

Notes to Consolidated Financial Statements

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.

2. Summary of Significant Accounting Policies

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

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 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.

Investments

Investments are generally carried at fair market value. The basis of determining the fair market 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. Limited partnerships are valued at cost plus the partner’s share of net income or loss of partnership as reported by the General Partners. 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 are carried at cost, which approximates market value.

The UCLA Foundation

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Included in investments are pooled investments:

- Regents Short-term Investment Pool (“STIP”) – This is a pool to maximize returns on short-term cash balances. Cash in STIP is either awaiting permanent investment in long-term investments or will be disbursed to campus units for current needs as stated in their fund terms. Short-term investments in the statements of net assets include STIP balances, campus loans, and mutual funds.
- Regents General Endowment Pool (“GEP”) – This is a pool to maximize returns on long-term endowed funds.
- Regents Other – This is funds invested on behalf of a UCLA affiliated organization. A corresponding liability is recorded in the Statements of Net Assets.

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 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.

The UCLA Foundation

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

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 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.

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

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Endowments (Continued)

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 currently is 4.5% of the average market value of the endowment investment pool for the previous 36 months. 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. In the case of an annuity trust, the payment consists of a fixed amount. For a standard unitrust, payments are a percentage of the trust's fair market value.

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

Pooled Income Fund

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

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

The UCLA Foundation

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

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.

Reclassifications

Certain prior year information has been reclassified to conform with the current year presentation.

3. Investments

In accordance with GASB Statement No. 3, *Deposits and Investments*, the investments in the table below have been categorized into the following three categories of credit risk:

1. Insured, registered or held in The UCLA Foundation's name.
2. Uninsured, unregistered and held in The UCLA Foundation's name.
3. Uninsured, unregistered and not held in The UCLA Foundation's name.

At June 30, 2004 and 2003, The UCLA Foundation held no investments under categories number 2 or 3. In addition, The UCLA Foundation had investments not required to be categorized. Investments not categorized are those not considered securities for purposes of custodial risk classifications and include limited partnerships, the Regents STIP, the Regents GEP, the Regents Other, and the Campus loan pool.

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 UCLA Foundation is exposed to credit risk for the amount of the investments in the event of nonperformance by the other parties to the investment transactions. To minimize any potential risk, The UCLA Foundation has adopted investment guidelines that

The UCLA Foundation

Notes to Consolidated Financial Statements

3. Investments (Continued)

specify the types of investments instruments that are acceptable. These guidelines permit alternative investments primarily in partnerships where The UCLA Foundation is a limited partner relying upon the expertise of experienced general partners. All limited partnerships in which The UCLA Foundation invests are subject to annual audits. The limited partnership's comprise of holdings in absolute returns and private equity. Investments in absolute return adhere to a strategy of seeking returns that are uncorrelated to broad market indices with principal preservation as a primary goal; they aim to deliver positive return, whether stock or bond markets rise or fall. Holdings in private equity are professionally managed equity investments in the unregistered securities of private companies.

As of June 30, 2004, The UCLA Foundation has contractual commitments to invest an additional \$72 million (2003: \$54 million) in various limited partnership investments through July 30, 2012.

Investments consist of the following at:

(in thousands)

	2004		2003	
	Cost	Market	Cost	Market
Short-term investments				
Mutual funds	\$ 2,479	\$ 2,479	\$ 4,389	\$ 4,389
Corporate bonds	–	–	37,081	37,081
Governmental obligations	–	–	29,521	29,521
Campus loan pool	10,950	10,950	10,238	10,238
Regents – STIP	97,437	97,437	36,934	36,934
Regents – Other	10,332	10,332	5,139	5,139
Stocks	<u>74</u>	<u>74</u>	<u>262</u>	<u>262</u>
Total short-term investments	<u>\$ 121,272</u>	<u>\$ 121,272</u>	<u>\$ 123,564</u>	<u>\$ 123,564</u>
Long-term investments				
Absolute return	\$ 41,269	\$ 53,216	\$ 22,438	\$ 33,894
Certificates of Deposit	536	536	530	530
Mutual funds – Fixed income	7,627	7,872	7,082	7,189
Mutual funds – Equities	191,037	194,189	48,842	47,669
Insurance contracts	873	873	793	793
Corporate bonds	24,761	26,220	29,070	30,937
Foreign bonds	1	1	169	170
Governmental obligations	104,145	104,655	102,312	105,689
Regents – STIP	1,458	1,458	90	90
Regents – GEP	2,821	2,897	10,000	9,192
Regents – Other	694	714	145	147
Stocks – Domestic	76,556	91,470	179,023	189,887
Stocks – Foreign	89,708	103,484	82,274	81,594
Real estate	18,043	18,210	–	–
Private equity	<u>41,127</u>	<u>46,127</u>	<u>45,035</u>	<u>44,111</u>
Total long-term investments	<u>\$ 600,656</u>	<u>\$ 651,922</u>	<u>\$ 527,803</u>	<u>\$ 551,892</u>

The UCLA Foundation

Notes to Consolidated Financial Statements

4. Investment Performance

The UCLA Foundation's total return for the Short-term Investments was 2.9% (2003: 3.9%). The return on endowed funds for the year ended June 30, 2004 was 15.6% (2003: 4.8%).

5. Pledges Receivable

Pledges receivable are uncollateralized promises to pay a certain amount and consist of the following at June 30, 2004:

	<i>(in thousands)</i>	
	2004	2003
Pledges receivable	\$ 308,826	\$ 320,996
Less:		
Allowance for uncollectible pledges	(13,195)	(12,592)
Discount for future payments	<u>(71,314)</u>	<u>(82,781)</u>
Net pledges receivable	<u>\$ 224,317</u>	<u>\$ 225,623</u>
Current pledges receivable	\$ 49,878	\$ 35,145
Noncurrent pledges receivable	<u>174,439</u>	<u>190,478</u>
	<u>\$ 224,317</u>	<u>\$ 225,623</u>

The allowance for uncollectible pledges has been established at 4% of contribution revenue. Pledges due beyond one year have been discounted at an annual rate of 6%. Seventy-four percent of the pledges receivable are from five donors.

6. Depository Liabilities

Funds held in trust as of June 30, 2004 of \$53.6 million (2003: \$45.9 million) represent amounts held by The UCLA Foundation under agency relationships with various support groups of UCLA. 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 asset is included in the Consolidated Statements of Net Assets in 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 2007 which is collateralized by cash and securities. There were no outstanding loan balances as of June 30, 2004 and 2003.

The UCLA Foundation

Notes to Consolidated Financial Statements

8. Securities Lending

The UCLA Foundation has a securities lending agreement with the Bank of New York. A combination of cash, letter of credit and/or U.S. government securities 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 continues to carry 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 \$40.2 million and \$61.7 million as of June 30, 2004 and 2003, respectively, to reflect the cash collateral related to the lent securities under the securities lending agreement.