

Approved by The UCLA Foundation Audit Committee (September 10, 2013)
Approved by The UCLA Foundation Board of Directors (October 11, 2013)

The UCLA Foundation

Financial Statements

June 30, 2013 and 2012

The UCLA Foundation
Table of Contents
June 30, 2013 and 2012

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited).....	3-6
Financial Statements	
Statements of Net Position.....	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10-22



Independent Auditor's Report

The Board of Directors
UCLA Foundation

We have audited the accompanying financial statements of net position and the related statements of revenues, expenses and changes in net position and of cash flows of The UCLA Foundation (the "Foundation"), a component unit of the University of California, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation at June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

The accompanying management's discussion and analysis on pages 3 through 6 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

Priscilla A. Hunt-Crogers LLP

September 17, 2013

The UCLA Foundation

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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, 2013 ("FY13") with selected comparative information for the fiscal year ended June 30, 2012 ("FY12"). 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 FY13, The Foundation's endowed pool experienced a positive investment return of 15.2%, as a result of an improved economy and market conditions. The Foundation's net position, which represents the excess of total assets over total liabilities, increased by \$221 million to \$2.0 billion as of June 30, 2013, primarily a result of increased gifts and positive investment returns. Total assets increased 12% to approximately \$2.2 billion and total liabilities increased by 9% to \$251 million as of June 30, 2013.

The Foundation's revenue in the form of donor contributions totaled \$253 million for FY13, a 47% increase as compared to FY12. To support campus initiatives, The Foundation's expenditures in the form of grants and transfers to the campus increased 12.0% over FY 12 to \$204.3 million. The increased contribution revenue combined with increased campus support and external distributions of \$49.8 million resulted in operating loss of \$1.1 million for FY13 as compared to an operating loss of \$54.1 million in FY12. Due to the positive investment returns in FY13, The Foundation had non-operating income of \$185.5 million. Other income in the form of private gifts of permanent endowments totaled \$53.6 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, 2013 and 2012

Condensed Statements of Net Position

<i>(in thousands of dollars)</i>	2013		2012		2011	
Assets						
Current assets	\$ 303,719	14 %	\$ 207,626	11 %	\$ 240,805	12 %
Non-current assets	1,907,697	86	1,761,862	89	1,781,915	88
Total assets	<u>2,211,416</u>	<u>100</u>	<u>1,969,488</u>	<u>100</u>	<u>2,022,720</u>	<u>100</u>
Liabilities						
Current liabilities	216,480	86	194,492	85	217,142	86
Non-current liabilities	34,505	14	35,268	15	35,550	14
Total liabilities	<u>250,985</u>	<u>100</u>	<u>229,760</u>	<u>100</u>	<u>252,692</u>	<u>100</u>
Net position						
Restricted						
Non-expendable	797,119	41	707,493	41	687,924	39
Expendable	1,081,386	55	900,247	52	886,375	50
Unrestricted	81,926	4	131,988	7	195,729	11
Total net position	<u>\$ 1,960,431</u>	<u>100 %</u>	<u>\$ 1,739,728</u>	<u>100 %</u>	<u>\$ 1,770,028</u>	<u>100 %</u>

The Condensed Statements of Net Position show assets, liabilities and net position for fiscal years 2013, 2012 and 2011. In FY13, The Foundation's total assets increased by \$241.9 million to approximately \$2.2 billion. Current assets increased by \$96.1 million to \$303.7 million and represented 14% of total assets (2012:11%, 2011: 12%). Current assets consist primarily of short-term investments and pledges receivable within one year. For FY12, current assets included cash collateral invested under a securities lending agreement. The Foundation discontinued the securities lending program during FY2013.

Non-current assets increased by \$145.8 million to \$1.9 billion and comprised 86% of total assets (2012: 89%, 2011: 88%). Non-current assets consist primarily of long term investments and pledges receivable due after one year.

In FY13, The Foundation's total liabilities increased by \$21.2 million to \$251 million. Current liabilities increased by \$22 million to \$216.5 million and comprised 86% of total liabilities (2012: 85%, 2011: 85%). Current liabilities consist primarily of amounts held for others. Current liabilities also included a payable under the securities lending agreement in FY12. The Foundation discontinued the securities lending program in FY13. Non-current liabilities decreased by \$0.8 million to \$34.5 million and comprised 14% of total liabilities (2012: 15%, 2011: 14%). Non-current liabilities consist of annuities payable and liabilities to life beneficiaries.

The UCLA Foundation
Management's Discussion and Analysis (Unaudited)
June 30, 2013 and 2012

Condensed Statements of Revenues, Expenses and Changes in Net Position

(in thousands of dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues and expenses			
Contributions	\$ 252,960	\$ 171,571	\$ 351,611
Expenses	<u>254,081</u>	<u>225,684</u>	<u>152,315</u>
Operating (loss) income	<u>(1,121)</u>	<u>(54,113)</u>	<u>199,296</u>
Non-operating revenues (expenses)			
Interest, dividends and distributions, net	29,295	19,040	31,647
Realized gains on investments	55,500	17,820	25,837
Increase/(decrease) in fair value of investments	102,483	(59,510)	114,366
Change in value of split interest agreements	<u>(1,823)</u>	<u>(2,160)</u>	<u>(708)</u>
Non-operating income (loss)	185,455	(24,810)	171,142
Private gifts of permanent endowments	<u>53,572</u>	<u>48,623</u>	<u>77,015</u>
Increase(decrease) in net position	<u>237,906</u>	<u>(30,300)</u>	<u>447,453</u>
Net position			
Beginning of year	1,739,728	1,770,028	1,322,575
Cumulative effect of change in accounting principle	<u>(17,203)</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 1,960,431</u>	<u>\$ 1,739,728</u>	<u>\$ 1,770,028</u>

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 2013, 2012 and 2011. During FY13, The Foundation's net position increased \$221 million primarily due to \$185 million of non-operating investment gains and higher gifts.

In FY13, The Foundation recorded a \$1.1 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 increased to \$253 million in FY13, from \$171.6 million in FY12 and \$351.6 million in FY11. Operating expenses, including grants and transfers to the campus, increased by \$28.4 million over FY12 to \$254.1 million.

The UCLA Investment Company

In FY11, 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 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.

**The UCLA Foundation
Management's Discussion and Analysis (Unaudited)
June 30, 2013 and 2012**

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 FY13 were \$4.3 million while for the stub period from October 1, 2011 to June 30, 2012 they were \$2.0 million and are included in the accompanying financial statements.

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, 2013 and 2012

(in thousands of dollars)

	2013	2012
Assets		
Current assets		
Cash	\$ 2,049	\$ 1,269
Short-term investments	255,173	137,902
Accounts and other receivables	6,319	18,637
Accrued investment income	408	612
Funds held in trust by others	-	550
Pledges receivable, net	39,770	45,711
Collateral under securities lending agreement	-	2,945
Total current assets	303,719	207,626
Non-current assets		
Long-term investments	1,576,783	1,481,446
Investments in land and buildings	22,568	23,158
Funds held in trust by others	-	16,653
Accounts and other receivables	9,417	8,941
Pledges receivable, net	298,929	231,664
Total non-current assets	1,907,697	1,761,862
Total assets	\$ 2,211,416	\$ 1,969,488
Liabilities and Net Position		
Current liabilities		
Accounts and grants payable	\$ 5,118	\$ 4,200
Annuities payable	2,650	2,959
Liabilities to life beneficiaries	2,582	2,441
Amounts held for others	206,130	181,947
Payable under securities lending agreement	-	2,945
Total current liabilities	216,480	194,492
Non-current liabilities		
Annuities payable	16,208	17,001
Liabilities to life beneficiaries	18,297	18,267
Total non-current liabilities	34,505	35,268
Total liabilities	250,985	229,760
Net position		
Restricted for		
Non-expendable		
Endowments	778,924	690,833
Annuity and life income fund	18,195	16,660
Expendable		
Endowment earnings	174,433	128,951
Annuity and life income fund	13,975	13,258
Funds functioning as endowments	422,094	373,121
Gifts	470,884	384,917
Unrestricted	81,926	131,988
Total net position	1,960,431	1,739,728
Total liabilities and net position	\$ 2,211,416	\$ 1,969,488

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

The UCLA Foundation
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

(in thousands of dollars)

	2013	2012
Operating revenues		
Contributions	\$ 252,960	\$ 171,571
Total operating revenues	<u>252,960</u>	<u>171,571</u>
Operating expenses		
Gift fund distributions	235,245	206,619
Gift administration fees	10,579	10,890
UCLA Chancellor's priorities	6,000	6,000
UCLA Telemarketing program	1,300	1,000
General expenditures	757	875
UCLA Alumni association	200	300
Total operating expenses	<u>254,081</u>	<u>225,684</u>
Operating loss	<u>(1,121)</u>	<u>(54,113)</u>
Non-operating revenues (expenses)		
Interest, dividends and distributions, net	29,274	18,796
Securities lending income, net	21	244
Increase/(decrease) in realized gains and fair value of investments	157,983	(41,690)
Change in value of split interest agreements	(1,823)	(2,160)
Non-operating income/(loss)	<u>185,455</u>	<u>(24,810)</u>
Income/(loss) before other changes in net position	184,334	(78,923)
Other changes in net position		
Private gifts of permanent endowments	53,572	48,623
Increase/(decrease) in net position	<u>237,906</u>	<u>(30,300)</u>
Net position		
Beginning of year	1,739,728	1,770,028
Cumulative effect of change in accounting principle	(17,203)	-
End of year	<u>\$ 1,960,431</u>	<u>\$ 1,739,728</u>

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

The UCLA Foundation
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

(in thousands of dollars)

	2013	2012
Cash flows from operating activities		
Contributions	\$ 134,319	\$ 109,498
Operating expenses	(253,715)	(223,675)
Beneficiary payments, net	(3,161)	(3,929)
Net cash used in operating activities	<u>(122,557)</u>	<u>(118,106)</u>
Cash flows from non-capital financing activities		
Gifts and grants received for other than capital purposes		
Private gifts for endowment purposes	42,244	37,635
Net cash provided by non-capital financing activities	<u>42,244</u>	<u>37,635</u>
Cash flows from investing activities		
Proceeds from sales of investments	637,558	445,241
Purchases of investments	(585,926)	(383,586)
Interest, dividends and distributions, net	29,461	18,616
Proceeds from revolving line of credit	60,000	60,000
Payments under revolving line of credit	(60,000)	(60,000)
Net cash provided by investing activities	<u>81,093</u>	<u>80,271</u>
Net increase/(decrease) in cash	780	(200)
Cash		
Beginning of year	1,269	1,469
End of year	<u>\$ 2,049</u>	<u>\$ 1,269</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,121)	\$ (54,113)
Adjustments to reconcile operating loss to net cash (used in)/provided by operating activities		
Non-cash gifts	(56,787)	(7,110)
Provision for uncollectible pledges receivable	401	12,254
Changes in assets and liabilities		
Accounts and other receivables	(83)	432
Pledges receivable, net	(61,725)	(67,972)
Funds held in trust by others	-	(1,188)
Accounts and grants payable	366	2,009
Annuities payable	(1,045)	(367)
Liabilities to life beneficiaries	(2,563)	(2,010)
Amounts held for others	-	(41)
Net cash used in operating activities	<u>\$ (122,557)</u>	<u>\$ (118,106)</u>
Supplemental non-cash activities information		
Gifts of securities and real property – operating	\$ 56,787	\$ 7,110
Gifts of securities and real property – for endowment purposes	11,386	11,060
Beneficial interest in charitable remainder trust	-	2,111
Securities lending activity	(2,945)	(19,858)

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

The UCLA Foundation

Notes to Financial Statements

June 30, 2013 and 2012

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 2011, 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 9 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 March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"), effective for The UCLA Foundation's fiscal year beginning July 1, 2013; however, The UCLA Foundation early adopted GASB 65 effective for the fiscal year beginning July 1, 2012. GASB 65 is a companion to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* ("GASB 63"). While GASB 63 modifies the presentation of deferred inflows and deferred outflows in the financial statements, GASB 65 reclassifies items previously reported as assets and liabilities into deferred outflows and inflows of resources. It also limits the use of the term "deferred." Implementation of GASB 65 had no effect on The UCLA Foundation's net position or changes in net position for the fiscal years ended June 30, 2013 ("FY13") and June 30, 2012 ("FY12").

The UCLA Foundation

Notes to Financial Statements

June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

Recently Adopted New Accounting Pronouncement (Continued)

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, 2013 ("FY13") and June 30, 2012 ("FY12").

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

Investments

Investments are 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 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.

Realized gains or losses are computed as the difference between the proceeds of the sale and the original cost of the investments sold. They are based on the specific identification of investments sold and are independent of the calculation of the net change in the fair value of investments.

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, pledges are recorded net of an allowance. The allowance for uncollectible pledges is determined by management.

The UCLA Foundation

Notes to Financial Statements

June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

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.

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 expense was 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.

The UCLA Foundation

Notes to Financial Statements

June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

Endowments

The UCLA Foundation's Endowment is 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. The mission of the endowment is to support the educational mission of UCLA by providing a reliable source of funds for current and future use. The endowment has two primary missions. First, the purchasing power of the endowment's assets must be maintained in perpetuity and second, the endowment must achieve investment returns sufficient to sustain the level of spending necessary to support ongoing UCLA operations.

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 5.25% of the average market value of the endowed investment pool on a rolling 36-month basis from July 1st to December 31 2013, switching to a 12 quarter average from January 1st through June 30 2013. The annual payout rate for FY12 was 5.3% of a 36 month rolling average market value. 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. Prior to July 1, The UCLA Foundation recorded its interest in these trusts at fair value, which approximated the present value of the estimated future cash receipts from these trusts. University of California management reviewed the existing guidance and literature published by the National

The UCLA Foundation

Notes to Financial Statements

June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

Association of College and University Business Officers (NACUBO), and requested clarification from the Government Accounting Standards Board (GASB).

Based on clarification received from the GASB, the University has changed its policy associated with the recording of investments in trusts held by others. Attributable to the fact that the funds cannot be sold, disbursed or consumed for several years, or until a specific event has occurred, and the University cannot have control over, or meet the time requirements, as the funds are managed by outside trustees, the University has changed its accounting policy as of July 1, 2012. For these types of transactions, revenues will be recognized when resources are received, provided all eligibility criteria are met. The Foundation has reported the cumulative change of this effect of this change in accounting principle in amount of \$17.2 million in the accompanying Statement of Net Position as an adjustment to Beginning Net Position.

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.

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.

The UCLA Foundation

Notes to Financial Statements

June 30, 2013 and 2012

3. Investments

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* ("GASB 40"), The UCLA Foundation's investments in securities and investment funds 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.

Investments are exposed to several risks, such as market, credit, foreign currency and interest rate risks, and can affect the value of the investments. In order to manage the risks and the directionality of the portfolio, The UCLA Foundation may utilize swaps, derivatives, exchange-traded funds or other instruments.

The UCLA Foundation holds significant investments in the form of equity funds including domestic, International and global. In addition, The Foundation invests in private equity funds, multi-strategy funds, as well as credit, real asset, and real estate investment funds. The investment 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 investment guidelines also permit direct investments in equity or other instruments.

The UCLA Foundation
Notes to Financial Statements
June 30, 2013 and 2012

3. Investments (Continued)

Composition of Investments *(by investment type)*

(in thousands of dollars)

	2013	2012
Equity securities		
Domestic	\$ 39,938	\$ 31,914
Foreign	982	585
Subtotal equity securities	<u>40,920</u>	<u>32,499</u>
Fixed income securities		
U.S. Government guaranteed		
U.S. Treasury bills	-	74
U.S. Treasury notes	8,584	8,798
U.S. Treasury bonds	234	247
Subtotal U.S. Treasury	<u>8,818</u>	<u>9,119</u>
U.S. Government backed – asset-backed securities	490	477
Subtotal U.S. government guaranteed	<u>9,308</u>	<u>9,596</u>
Other U.S. dollar denominated		
U.S. Agencies – asset-backed securities	22,419	1,166
Corporate – asset-backed securities	29,009	16,276
Subtotal Other U.S. dollar denominated	<u>51,428</u>	<u>17,442</u>
Commingled funds and others		
Commingled funds – absolute return	729,319	395,718
Commingled funds – balanced funds	4,311	3,896
Commingled funds – U.S. equity funds	224,553	191,375
Commingled funds – non-U.S. equity funds	63,910	207,763
Commingled funds – U.S. bond funds	53,257	162,293
Commingled funds – non-U.S. bond funds	2,596	17,331
Commingled funds – real estate investment trusts	8,410	37,214
Commingled funds – money market funds	258,652	147,007
Investment derivatives	-	286
Private equity	200,692	208,924
Real estate	86,542	95,493
Funds held in trust by others	-	17,203
Other investments	120,626	115,669
Total investments	<u>\$ 1,854,524</u>	<u>\$ 1,659,709</u>

The UCLA Foundation
Notes to Financial Statements
June 30, 2013 and 2012

3. Investments (Continued)

Composition of Investments (as classified on the Statements of Net Position)
(in thousands of dollars)

	2013	2012
Current		
Short-term investments	\$ 255,173	\$ 137,902
Funds held in trust by others	-	550
Non-current		
Long-term investments	1,576,783	1,481,446
Investments in land and buildings	22,568	23,158
Funds held in trust by others	-	16,653
Total investments	<u>\$ 1,854,524</u>	<u>\$ 1,659,709</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 portfolio is diversified across credit asset classes and holds a mixture of investment grade and high yield securities of performing and non-performing debt. The Credit Risk Profile of Investments schedule summarizes the market value of fixed income securities subject to credit risk.

Credit Risk Profile of Investments

(in thousands of dollars)

	2013	2012
Fixed income securities		
U.S. government guaranteed	<u>\$ 9,308</u>	<u>\$ 9,596</u>
Other U.S. dollar denominated		
AAA	487	1,166
AA	22,419	-
BBB	-	819
BB	-	697
B	1,372	779
CCC or below	23,319	11,728
Not rated	3,831	2,253
Total other U.S. dollar denominated	<u>51,428</u>	<u>17,442</u>
Commingled funds		
U.S. bond funds: Not rated	53,257	162,293
Non-U.S. bond funds: Not rated	2,596	17,331
Money market funds: Not rated	258,652	147,007
Total commingled funds	<u>314,505</u>	<u>326,631</u>
Total funds subject to credit risk	<u>\$ 375,241</u>	<u>\$ 353,669</u>

The UCLA Foundation
Notes to Financial Statements
June 30, 2013 and 2012

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.

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

<i>(effective duration in years)</i>	2013	2012
Fixed income securities		
U.S. Government		
U.S. Treasury bills	0.0	0.1
U.S. Treasury notes	2.6	3.5
U.S. Treasury bonds	3.1	3.9
U.S. Government backed – asset backed securities	7.9	27.2
Other U.S. dollar denominated		
U.S. agencies – asset-backed securities	9.3	29.5
Corporate - asset-backed securities	(0.3)	23.4
Commingled funds – U.S. bond funds	4.9	4.4
Commingled funds – non-U.S. bond funds	8.2	2.6
Commingled funds – money market funds	2.7	1.8

Investments highly sensitive to changes in interest rates

<i>(in thousands of dollars)</i>				
Mortgage backed securities	\$	8,824	\$	5,435
Collateralized mortgage obligations		23,168		12,486

The UCLA Foundation
Notes to Financial Statements
June 30, 2013 and 2012

3. Investments (Continued)

Foreign Currency Risk

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.

Foreign Currency Risk Associated with Investments

(in thousands of dollars)

	2013	2012
Equity securities		
Australian Dollar	\$ -	\$ -
Brazilian Real	-	-
British Pound	23	24
Canadian Dollar	7	-
Danish Krone	-	-
Euro	21	22
Hong Kong Dollar	-	-
Indian Rupee	-	-
Japanese Yen	-	-
Miscellaneous	912	539
Norwegian Krone	-	-
Singapore Dollar	-	-
South African Rand	-	-
Swedish Krona	-	-
Swiss Franc	19	-
	<u>\$ 982</u>	<u>\$ 585</u>
Total exposure to foreign currency risk		
Commingled funds		
Various currency denominations		
Balanced funds	\$ 982	\$ 881
Non-U.S. equity	15,426	161,206
U.S. bond	3,219	11,209
Non-U.S. bond	27	9,369
Real estate investment trusts	3,094	9,101

4. Investment Performance

For parties invested in The UCLA Foundation's unendowed investment pool for FY13, the return was 2.04% (FY12: 2.3%). The return on the endowed investment pool for FY13 was 15.2% (FY12: 1.5%). The return on the combined planned giving investment pools for FY13 was 10.4% (FY12: 1.8%).

The UCLA Foundation
Notes to Financial Statements
June 30, 2013 and 2012

5. Endowment Payout

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

<i>(in thousands of dollars)</i>	2013	2012
Investment income, net	\$ 22,622	\$ 12,602
Net accumulated gains and corpus	<u>39,190</u>	<u>45,269</u>
	<u>\$ 61,812</u>	<u>\$ 57,871</u>

In addition to the above, The UCLA Foundation made payout available to affiliated entities and unrestricted funds of \$13.6 million in FY13 and \$15.8 million in FY12, bringing the total endowed investment pool payout to \$75.4 million in FY13 and \$73.7 million in FY12.

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>	2013	2012
Pledges receivable	\$ 435,149	\$ 374,974
Less		
Allowance for uncollectible pledges	(37,373)	(37,805)
Discount for future payments	<u>(59,077)</u>	<u>(59,794)</u>
Pledges receivable, net	<u>\$ 338,699</u>	<u>\$ 277,375</u>
Current pledges receivable, net	\$ 39,770	\$ 45,711
Non-current pledges receivable, net	<u>298,929</u>	<u>231,664</u>
	<u>\$ 338,699</u>	<u>\$ 277,375</u>

Management evaluates the collectability of its receivables and records an allowance for estimated uncollectible amounts. The UCLA Foundation recorded a provision for uncollectible pledges of \$0.4 million in FY13 and \$12.2 million in FY12 and this is recorded as a reduction in contributions. Pledges due beyond one year have been discounted at an annual rate of 2.1% for pledges received in FY13 and 2.4% for FY12. Sixty-nine percent of the pledges receivable, net of discount, are from five donors in FY13 as compared to 62% in FY12.

7. Amounts Held For Others

Amounts held for others as of June 30, 2013, of \$206.1 million (2012: \$181.9 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
June 30, 2013 and 2012

8. Revolving Line of Credit

The UCLA Foundation had a \$60 million revolving line of credit with the Bank of New York Mellon, which was collateralized by securities. The Foundation terminated this line of credit effective January 31, 2013. There were no loan balances outstanding as of June 30, 2013, or June 30, 2012.

9. Securities Lending

The UCLA Foundation had a securities lending agreement with the Bank of New York Mellon which was terminated during FY13. Income earned from the lending transactions is recorded as investment income. The UCLA Foundation agreement restricted 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.

The UCLA Foundation carried 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 as of June 30, 2012 to reflect the cash collateral related to the lent securities under the securities lending agreement. There are no assets or liabilities associated with this activity as of June 30, 2013.

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)

	2013	2012
Securities lent		
For cash collateral		
Equity securities – domestic	\$ -	\$ 2,873
Equity securities – foreign		-
Total securities lent for cash collateral	\$ -	\$ 2,873
Collateral received		
Cash	\$ -	\$ 2,945
Total cash collateral received	\$ -	\$ 2,945
Investment of cash collateral		
Fixed income securities		
U.S. dollar denominated		
Repurchase agreements	\$ -	\$ 2,945
Total investment of cash collateral	\$ -	\$ 2,945
Securities lending income and expense		
Securities lending income	\$ 30	\$ 344
Securities lending fees and rebates	(9)	(100)
Securities lending income, net	\$ 21	\$ 244

The UCLA Foundation
Notes to Financial Statements
June 30, 2013 and 2012

9. Securities Lending (Continued)

Securities Lending – Credit Risk Profile of Foundation Investments

<i>(in thousands of dollars)</i>	2013	2012
Fixed income securities		
U.S. dollar denominated		
Not rated	\$ -	\$ 2,945
Total investment of cash collateral	<u>\$ -</u>	<u>\$ 2,945</u>

Securities Lending – Concentration Risk Profile of Foundation Investments

<i>(in thousands of dollars)</i>	2013	2012
Issuer		
Citibank	\$ -	\$ 699
Deutsche Bank	-	-
HSBC	-	700
J P Morgan Chase	-	-
Merrill Lynch	-	700
Mizuho	-	699
Royal Bank of Canada	-	-
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).

Securities Lending – Interest Rate Risk Profile of Foundation Investments

<i>(weighted average maturity in days to next reset date)</i>	2013	2012
Fixed income securities		
U.S. dollar denominated		
Repurchase agreements	0.0	3.0

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

10. Commitments

As of June 30, 2013, The UCLA Foundation has contractual commitments to invest an additional \$190.2 million in various limited partnership investments through February 21, 2024.