

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

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

---

**Table of Contents**

	<b>Page</b>
Report of Independent Accountants	1
Management's Discussion and Analysis (Unaudited)	2
Consolidated Financial Statements:	
Consolidated Statement of Net Assets	6
Consolidated Statement of Revenues, Expenses and Changes in Net Assets	7
Consolidated Statement 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 at June 30, 2003 and 2002, and the results of its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of The UCLA Foundation's management; our responsibility is to express an opinion on these consolidated 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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*

September 5, 2003

**Management’s Discussion and Analysis**  
**(Un-audited)**

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, 2003 with selected comparative information for the year ended June 30, 2002. 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**

Despite the difficult economic environment, The UCLA Foundation has continued to maintain a strong financial position as of June 30, 2003 with assets exceeding a billion dollars and with total liabilities under \$169 million. Net assets, which represent the excess of total assets over total liabilities grew by \$32 million for the year ended June 2003. This change is summarized below:

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

Though the operating revenues for fiscal year 2003 appear to have decreased significantly when compared with the operating revenue for fiscal year 2002, this is explained by the fact that fiscal year 2002 operating revenue consist of several significant pledge contributions.

Operating expenses for fiscal year 2003 is consistent with the prior fiscal year, as The UCLA Foundation has generally maintained the support provided for programmatic purposes during fiscal 2003 and will strive to continue to do so as resources permit.

Though the operating results were not favorable in fiscal year 2003, a more positive result can be seen in non-operating investment performance which provided an increase of over \$32 million to the net assets of the Foundation.

**Management's Discussion and Analysis (Continued)**  
**(Un-audited)**

**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 key to understanding this question is the Consolidated Statement of Net Assets, Consolidated Statement of Revenues, Expenses and Changes in Net Assets and the Consolidated Statement 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 Statement of Net Assets includes all assets and liabilities. The Consolidated Statement 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 Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period.

**Management's Discussion and Analysis (Continued)**  
**(Un-audited)**

**Condensed Consolidated Financial Information**

**Condensed Consolidated Statement of Net Assets**

(in thousands)

<u>ASSETS</u>	<u>2003</u>		<u>2002</u>	
Current assets	\$228,996	23%	\$218,911	23%
Noncurrent assets	<u>780,796</u>	<u>77</u>	<u>716,957</u>	<u>77</u>
Total Assets	1,009,792	100	935,868	100
<u>LIABILITIES</u>				
Current liabilities	129,059	77	89,768	71
Noncurrent liabilities	<u>39,156</u>	<u>23</u>	<u>36,421</u>	<u>29</u>
Total Liabilities	168,215	100	126,189	100
<u>NET ASSETS</u>				
Restricted:				
Nonexpendable	288,118	34	267,335	33
Expendable	552,937	65	540,323	66
Unrestricted	<u>522</u>	<u>1</u>	<u>2,020</u>	<u>1</u>
Total Net Assets	\$841,577	100%	\$809,678	100%

Current liabilities as a percent of total liabilities have increased over the prior year (Current liabilities 2003: 77% 2002: 71%) and this is primarily due to the increase in security lending activity and depository liabilities.

Seventy-seven percent of The UCLA Foundation's total assets are noncurrent, consisting primarily of investments and pledges receivable. Short-term investments and cash comprise over \$186 million or 81% of the short-term assets in fiscal year 2003 as compared to \$150 million or 69% in fiscal 2002. Sixty-five percent of the Net Assets is in the restricted expendable category, where pledges receivable comprise over \$225 million of this balance.

**Management's Discussion and Analysis (Continued)**  
**(Un-audited)**

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

	(in thousands)	
	June 30, 2003	June 30, 2002
<b>Operating revenue and expenses</b>		
Contributions	\$ 86,791	\$241,599
Disbursements	<u>97,283</u>	<u>100,340</u>
Operating (deficit) income	(10,492)	141,259
<b>Nonoperating revenues and expenses</b>		
Interest and dividends on investments	14,373	15,169
Realized loss	(29,782)	(10,602)
Increase (Decline) in market value of Investments	39,790	(39,965)
Change in value of split interest agreements	<u>(2,191)</u>	<u>(3,743)</u>
Nonoperating revenue (expenses)	22,190	(39,141)
Private gifts of permanent endowments	<u>20,201</u>	<u>25,032</u>
Increase in net assets	31,899	127,150
<b>Net Assets</b>		
Net Assets beginning of Year	<u>809,678</u>	<u>682,528</u>
Net Assets end of Year	<u>\$841,577</u>	<u>\$809,678</u>

The Consolidated Statement of Revenues, Expenses and Changes in Net Assets shows operating and nonoperating revenues and expenses for fiscal years 2003 and 2002. The UCLA Foundation's net assets increased by \$32 million in FY2003 as compared to fiscal year 2002 where the \$127 million of net asset increase is primarily due to significant pledge contributions. Fiscal year 2003 change in net assets is primarily attributable to favorable investment performance, which in aggregate contributed \$24.2 million to the increase in net assets.

**Factors Impacting Future Periods**

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

# The UCLA Foundation

## Consolidated Statement of Net Assets

	(in thousands)	
Assets	June 30, 2003	June 30, 2002
Current assets:		
Cash	\$ 771	\$ 4,750
Short-term investments	123,564	96,272
Accounts receivable	2,714	2,641
Accrued investment income	2,229	2,241
Pledges receivable, net	35,145	60,326
Notes receivable	297	700
Funds held in trust by others	2,516	2,645
Investments of cash collateral	<u>61,760</u>	<u>49,336</u>
Total current assets	<u>228,996</u>	<u>218,911</u>
Noncurrent assets:		
Investments	551,892	497,576
Investments in land and building	26,750	25,065
Accounts receivable	797	944
Notes receivable	41	88
Pledges receivable, net	190,478	179,931
Funds held in trust by others	<u>10,838</u>	<u>13,353</u>
Total noncurrent assets	<u>780,796</u>	<u>716,957</u>
Total assets	<u>\$1,009,792</u>	<u>\$935,868</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts and grants payable	\$ 14,403	\$ 1,291
Annuities payable	3,287	2,489
Deferred revenue	1,266	2,299
Liabilities to life beneficiaries	2,406	2,489
Depository liabilities	45,937	31,864
Collateral held for securities lending	<u>61,760</u>	<u>49,336</u>
Total current liabilities	<u>129,059</u>	<u>89,768</u>
Noncurrent liabilities:		
Annuities payable	14,906	11,759
Liabilities to life beneficiaries	<u>24,250</u>	<u>24,662</u>
Total noncurrent liabilities	<u>39,156</u>	<u>36,421</u>
Total liabilities	<u>168,215</u>	<u>126,189</u>
Net assets:		
Restricted for:		
Nonexpendable		
Endowments	273,827	253,627
Annuity and Life Income Fund	14,291	13,708
Expendable:		
Endowment earnings	68,567	56,601
Annuity and Life Income Fund	21,211	20,467
Funds functioning as endowments	291,383	287,540
Gifts	171,776	175,716
Unrestricted	<u>522</u>	<u>2,020</u>
Total net assets	<u>841,577</u>	<u>809,678</u>
Total liabilities and net assets	<u>\$1,009,792</u>	<u>\$935,868</u>

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

# The UCLA Foundation

## Consolidated Statement of Revenues, Expenses and Changes in Net Assets

	(in thousands)	
	Year ended June 30,	
	2003	2002
<b>Revenues</b>		
Operating revenues:		
Contributions, net of allowance of \$672 (2002: \$6,595)	<u>\$86,791</u>	<u>\$241,599</u>
Total operating revenues	<u>86,791</u>	<u>241,599</u>
<b>Expenses</b>		
Operating expenses:		
UCLA Alumni Association	100	100
UCLA Alumni Participation	380	-
UCLA Chancellor's Priorities	10,854	10,440
UCLA Frontiers of Knowledge	600	1,000
UCLA Scholarships, research and other purposes	82,885	86,400
UCLA Telemarketing program	1,358	1,155
Others grants to UCLA	368	458
General expenditures	<u>738</u>	<u>787</u>
Total operating expenses	<u>97,283</u>	<u>100,340</u>
Operating (loss) income	<u>(10,492)</u>	<u>141,259</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest and dividends on investments	14,193	15,091
Securities lending income	180	78
Realized losses	(29,782)	(10,602)
Increase (decrease) in market value of investments	39,790	(39,965)
Change in value of split interest agreements	<u>(2,191)</u>	<u>(3,743)</u>
Net nonoperating revenues (expenses)	<u>22,190</u>	<u>(39,141)</u>
Income before changes in net assets	11,698	102,118
Other changes in net assets:		
Private gifts of permanent endowments	<u>20,201</u>	<u>25,032</u>
Increase in net assets	31,899	127,150
Net assets:		
Beginning of year	<u>809,678</u>	<u>682,528</u>
End of year	<u>\$841,577</u>	<u>\$809,678</u>

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

# The UCLA Foundation

## Consolidated Statement of Cash Flows

	(in thousands)	
	<b>Year Ended June 30,</b>	
	<b>2003</b>	<b>2002</b>
Cash flows from operating activities:		
Gift contributions	\$103,560	\$ 95,832
Grants	<u>(80,227)</u>	<u>(102,261)</u>
Net cash provided by (used in) operating activities	<u>23,333</u>	<u>(6,429)</u>
Cash flows from noncapital financing activities:		
Gift and grants received for other than capital purposes:		
Private gifts for endowment purposes	<u>20,201</u>	<u>25,032</u>
Net cash provided by noncapital financing activities	<u>20,201</u>	<u>25,032</u>
Cash flows from investing activities:		
Proceeds from sales of investments	61,033	90,784
Purchases of investments	(122,931)	(121,940)
Interest and dividends on investments	14,385	15,371
Proceeds from revolving line of credit	25,000	15,000
Payments under revolving line of credit	<u>(25,000)</u>	<u>(15,000)</u>
Net cash used by investing activities	<u>(47,513)</u>	<u>(15,785)</u>
Net increase (decrease) in cash	(3,979)	2,818
Cash, beginning of year	<u>4,750</u>	<u>1,932</u>
Cash, end of year	<u>\$ 771</u>	<u>\$ 4,750</u>
Reconciliation of net operating revenues to net cash provided by operating activities		
Operating (loss) income	\$(10,492)	\$141,259
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:		
Pledge allowance	672	6,595
Changes in assets and liabilities:		
Accounts receivable	74	536
Pledges receivable, net	13,963	(141,397)
Notes receivable	450	258
Funds held in trust by others	2,643	(11,720)
Annuities payable	3,945	216
Deferred revenue	(1,033)	(38)
Accounts payable	<u>13,111</u>	<u>(2,138)</u>
Net cash provided by (used in) operating activities	<u>\$23,333</u>	<u>\$ (6,429)</u>
Supplemental noncash activities information:		
Gifts of personal or real property	\$5,773	\$1,650

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 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.

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

The consolidated financial statements of The UCLA Foundation are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*, and amended by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* ("GASB Statement No. 33"), and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The GASB has also issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, that has been adopted by The UCLA Foundation for fiscal year 2003. This Statement provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and clarifies reporting requirements for those organizations. This statement had no impact on the financial statements.

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

# The UCLA Foundation

## Notes to Consolidated Financial Statements

---

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

#### 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 monthly 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 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.

# The UCLA Foundation

## Notes to Consolidated Financial Statements

---

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

#### **Annuities Payable**

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

#### **Net Assets**

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

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

*Restricted expendable net assets* relate to contributions designated by donors for use by particular entities or programs or for specific purposes or functions of UCLA. They also include quasi-endowments, of which the corpus can be invaded. Income and change in fair 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, except for pledges meeting the requirements of GASB Statement No. 33, are recognized as operating revenues in the period received. 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, 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.

# The UCLA Foundation

## Notes to Consolidated Financial Statements

---

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

#### Endowments

Endowments are managed in a unitized investment pool. Transactions within each individual endowment in the pool are based on the unit market value at the end of the month during which the transaction takes place for withdrawals and additions. It is the goal of The UCLA Foundation that the total return from endowment investments should be adequate to meet the following objectives:

- Preserve investment capital and its purchasing power.
- Generate sufficient resources to meet spending needs (payout).
- Attain reasonable capital appreciation through prudent acceptance of risk to enhance the future purchasing power of the investment capital.

The UCLA Foundation follows the Uniform Management of Institutional Funds Act (“UMIFA”) of 1992. Under UMIFA, annual spending (payout) may be taken from investment income, and net realized and unrealized investment gains. The annual payout rate currently is 5.10% 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 the 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 donor of the revocable trust may, at any time, require that the Trust return the unexpended assets.

# The UCLA Foundation

## Notes to Consolidated Financial Statements

---

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

#### **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 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.

# The UCLA Foundation

## Notes to Consolidated Financial Statements

---

### 3. Investments

In accordance with GASB Statement No. 3, *Deposits and Investments*, the above investments 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, 2003 and 2002, 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 short-term investment pool and the corporate 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, energy, technology, health care, transportation, and the consumer products and services 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 investment guidelines of The UCLA Foundation limits purchases to investment grade fixed income securities, financial institutions meeting specific quality requirements and equities of nationally traded public companies. 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.

As of June 30, 2003, The UCLA Foundation has contractual commitments to invest an additional \$54,215,477 (2002: \$57,881,419) in various limited partnership investments through July 30, 2012.

# The UCLA Foundation

## Notes to Consolidated Financial Statements

---

### 3. Investments (Continued)

Investments consist of the following at:

	(in thousands)			
	<u>June 30, 2003</u>		<u>June 30, 2002</u>	
	Cost	Market	Cost	Market
<b>Short-term investments</b>				
Mutual funds	\$ 4,389	\$ 4,389	\$ 5,523	\$ 5,523
Corporate bonds	37,081	37,081	61,779	61,779
Governmental obligations	29,521	29,521	6,829	6,829
Campus loan pool	10,238	10,238	12,975	12,975
Regental – STIP	36,934	36,934	8,735	8,735
Regental – Other	5,139	5,139	0	0
Stocks	<u>262</u>	<u>262</u>	<u>431</u>	<u>431</u>
Total short-term investments	<u>\$123,564</u>	<u>\$123,564</u>	<u>\$ 96,272</u>	<u>\$ 96,272</u>
<b>Investments</b>				
Certificates of Deposit	\$ 530	\$ 530	\$ 522	\$ 522
Mutual funds – Fixed income	125,438	131,648	11,664	11,664
Mutual funds - Equities	37,616	35,611	43,121	43,048
Insurance Contracts	793	793	0	0
Corporate bonds	2,834	2,913	12,255	8,883
Foreign bonds	169	170	19,748	20,161
Governmental obligations	15,883	15,604	85,409	87,413
Regental – STIP	90	90	8,101	8,101
Regental – GEP	10,000	9,192	10,000	8,996
Regental – Other	145	146	0	0
Stocks – Domestic	179,024	189,887	162,393	146,989
Stocks – Foreign	82,274	81,594	89,405	80,978
Real Estate	2,729	2,916	2,462	2,386
Limited partnerships	<u>70,278</u>	<u>80,798</u>	<u>71,119</u>	<u>78,435</u>
Total Investments	<u>\$527,803</u>	<u>\$551,892</u>	<u>\$516,199</u>	<u>\$497,576</u>

### 4. Investment Performance

The UCLA Foundation's total return on investments for the year ended June 30, 2003 was 4.79% ( 2002: loss of 8.51%). The return for the short-term Investments was 3.90% (2002: 5.19%).

# The UCLA Foundation

## Notes to Consolidated Financial Statements

---

### 5. Pledges Receivable

Pledges receivable are uncollateralized promises to pay a certain amount and consist of the following at June 30, 2003:

	(in thousands)	
	<u>2003</u>	<u>2002</u>
Pledges receivable	\$320,995	\$344,051
Less:		
Allowance for uncollectible pledges	(12,592)	(11,920)
Discount for future payments	<u>(82,781)</u>	<u>(91,874)</u>
Net pledges receivable	<u>\$225,622</u>	<u>\$240,257</u>
Current pledges receivable	\$35,145	\$ 60,326
Noncurrent pledges receivable	<u>190,477</u>	<u>179,931</u>
	<u>\$225,622</u>	<u>\$240,257</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-three percent of the pledges receivable are from five donors.

### 6. Depository Liabilities

Funds held in trust as of June 30, 2003 of \$45,937 (2002: \$31,864) 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 investments in marketable securities.

### 7. Revolving Line of Credit

In April 2002, The UCLA Foundation secured a revolving line of credit for \$25 million from the Bank of New York expiring in April 2007. There was no outstanding loan balance as of June 30, 2003 and 2002.

# 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 \$61,760 and \$49,335 for June 30, 2003 and 2002 respectively, to reflect the cash collateral related to the lent securities under the securities lending agreement.