

The UCLA Foundation

**Audited Consolidated Financial Statements
For the Years Ended June 30, 2006 and 2005**

The UCLA Foundation
Audited Consolidated Financial Statements
For the Years Ended June 30, 2006 and 2005

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, 2006 and 2005, 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

September 5, 2006

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's financial performance presents an overview of its financial activities for the fiscal year ended June 30, 2006 with selected comparative information for the year ended June 30, 2005. 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 benefiting directly from the completion of the most successful fund raising campaign in the history of higher education combined with a prudent investment strategy yielding significant market returns on investments. Net assets, which represent the excess of total assets over total liabilities, grew by \$117 million for the year ended June 30, 2006 with assets exceeding \$1.3 billion dollars and with total liabilities of \$171 million. This change is summarized below:

	<i>(In millions)</i>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenue/contributions	\$ 110	\$ 94	\$ 97
Operating expenses	<u>118</u>	<u>101</u>	<u>121</u>
Operating results	(8)	(7)	(24)
Investment performance and other non-operating items	<u>125</u>	<u>93</u>	<u>113</u>
Change in net assets	<u>\$ 117</u>	<u>\$ 86</u>	<u>\$ 89</u>

Consistent with prior years, the operating results were not favorable for fiscal year 2006 as operating expenses exceeded operating revenues, each increasing by 17% versus the prior year. The significant increase in contributions from donors was offset by equivalent increases in support to the Campus. A strong positive result came from non-operating activity including significant increases in investment returns and gifts to permanent endowments together providing over \$125 million (2005: \$93 million, 2004: \$113 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.

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 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 Statement of Net Assets

	2006		(in thousands) 2005		2004	
ASSETS						
Current assets	\$ 236,748	18%	\$ 248,294	21%	\$ 222,004	20%
Noncurrent assets	<u>1,067,610</u>	<u>82</u>	<u>935,358</u>	<u>79</u>	<u>864,698</u>	<u>80</u>
Total assets	1,304,358	100	1,183,652	100	1,086,702	100
LIABILITIES						
Current liabilities	126,531	74	124,106	74	110,641	71
Noncurrent liabilities	<u>44,609</u>	<u>26</u>	<u>43,212</u>	<u>26</u>	<u>45,407</u>	<u>29</u>
Total liabilities	171,140	100	167,318	100	156,048	100
NET ASSETS						
Restricted:						
Nonexpendable	406,178	36	370,221	36	329,802	35
Expendable	724,644	63	644,820	63	600,297	64
Unrestricted	<u>2,396</u>	<u>1</u>	<u>1,293</u>	<u>1</u>	<u>555</u>	<u>1</u>
Total net assets	<u>\$1,133,218</u>	<u>100%</u>	<u>\$1,016,334</u>	<u>100%</u>	<u>\$ 930,654</u>	<u>100%</u>

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

Eighty-two percent (2006: 82%; 2005: 79%; 2004: 80%) of The UCLA Foundation's total assets are noncurrent, consisting primarily of investments and pledges receivable. Short-term investments and pledges receivable comprise roughly \$178 million or 75% of the short-term assets in fiscal year 2006 as compared to \$180 million or 72% in fiscal 2005. In fiscal 2004, short-term investments and pledges receivable comprised \$171 million or 77% of short-term assets.

Current liabilities as a percent of total liabilities remained the same as the prior year (2006: 74%; 2005: 74%; 2004: 71%) with a \$9 million increase in Amounts Held for Others mostly offset by a \$7 million reduction of the payable under the securities lending agreement. The increase in fiscal year 2005 is primarily due to a \$17 million increase in the payable under the securities lending agreement and \$4 million increase in depository liabilities offset by combined decreases in accounts and annuities payable of \$8 million. The decrease in fiscal year 2004 is due to a \$22 million decrease in the payable under the securities lending agreement offset by an \$8 million increase in depository liabilities.

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

	<i>(In thousands)</i>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenue and expenses			
Contributions	\$ 110,274	\$ 93,960	\$ 97,075
Expenditures	<u>118,427</u>	<u>101,186</u>	<u>121,086</u>
Operating deficit	(8,153)	(7,226)	(24,011)
Nonoperating revenues and expenses			
Interest and dividends on investments	19,921	19,594	16,764
Realized gain on investments	60,267	22,672	39,926
Increase in market value of investments	14,051	23,679	25,194
Change in value of split interest agreements	<u>(5,527)</u>	<u>(4,352)</u>	<u>(6,562)</u>
Nonoperating revenue	88,712	61,593	75,322
Private gifts of permanent endowments	<u>36,325</u>	<u>31,313</u>	<u>37,766</u>
Increase in net assets	116,884	85,680	89,077
Net assets			
Net assets, beginning of year	<u>1,016,334</u>	<u>930,654</u>	<u>841,577</u>
Net assets, end of year	<u>\$ 1,133,218</u>	<u>\$ 1,016,334</u>	<u>\$ 930,654</u>

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

The Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Assets shows operating and nonoperating revenues and expenses for fiscal years 2006, 2005 and 2004. The UCLA Foundation's net assets increased \$117 million in fiscal year 2006, a 36% increase over the prior year's results. An operating deficit, consistent with the prior year, resulted as support to the Campus exceeded contributions. Contributions increased significantly due primarily to quasi-endowed gifts while disbursements increased primarily to support current expenditures of the Campus. Nonoperating revenue was significantly higher due to higher market returns and larger balances for both short term and long term investments with an unfavorable change in the value of split interest agreements due to an increase in liabilities to beneficiaries. Investment income remained consistent year over year while combined realized and unrealized gains on investments increased by \$28 million in fiscal year 2006 versus 2005 due to the strong market performance of investments. The endowed investment pool returned 13.2% versus 10.4% the prior year; the unendowed investment pool returned 4.1% versus 3.7% the prior year. Private gifts to permanent endowments also increased by \$5 million to further contribute to this year's significant 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 Statements of Net Assets
June 30, 2006 and 2005

	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Assets		
Current assets:		
Cash	\$ 1,460	\$ 837
Short-term investments	141,059	131,593
Accounts receivable	2,534	5,469
Accrued investment income	1,176	1,914
Pledges receivable, net	36,756	48,403
Notes receivable	389	444
Funds held in trust by others	3,002	2,516
Collateral under securities lending agreement	<u>50,372</u>	<u>57,118</u>
Total current assets	<u>236,748</u>	<u>248,294</u>
Noncurrent assets:		
Long-term investments	861,552	726,276
Investments in land and buildings	28,293	31,655
Accounts receivable	1,384	1,176
Notes receivable	121	69
Pledges receivable, net	170,814	167,431
Funds held in trust by others	<u>5,446</u>	<u>8,751</u>
Total noncurrent assets	<u>1,067,610</u>	<u>935,358</u>
Total assets	<u>\$ 1,304,358</u>	<u>\$ 1,183,652</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts and grants payable	\$ 1,644	\$ 1,660
Annuities payable	2,865	2,870
Deferred revenue	1,453	1,472
Liabilities to life beneficiaries	3,195	2,956
Amounts held for others	67,002	58,030
Payable under securities lending agreement	<u>50,372</u>	<u>57,118</u>
Total current liabilities	<u>126,531</u>	<u>124,106</u>
Noncurrent liabilities:		
Annuities payable	16,240	16,408
Liabilities to life beneficiaries	<u>28,369</u>	<u>26,804</u>
Total noncurrent liabilities	<u>44,609</u>	<u>43,212</u>
Total liabilities	<u>171,140</u>	<u>167,318</u>
Net assets:		
Restricted for:		
Nonexpendable:		
Endowments	386,216	345,379
Annuity and life income fund	19,962	24,842
Expendable:		
Endowment earnings	177,379	136,714
Annuity and life income fund	16,702	16,419
Funds functioning as endowments	377,329	335,358
Gifts	153,234	156,329
Unrestricted	<u>2,396</u>	<u>1,293</u>
Total net assets	<u>1,133,218</u>	<u>1,016,334</u>
Total liabilities and net assets	<u>\$ 1,304,358</u>	<u>\$ 1,183,652</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, 2006 and 2005

	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Revenues		
Operating revenues:		
Contributions	\$ 110,274	\$ 93,960
Total operating revenues	<u>110,274</u>	<u>93,960</u>
Expenses		
Operating expenses and grants:		
UCLA Scholarships, research and other purposes	102,229	85,778
UCLA Chancellor's Priorities	13,289	13,698
UCLA Telemarketing program	1,150	950
General expenditures	699	663
UCLA Alumni Association	210	90
Others grants to UCLA	-	7
Special Projects (Court of Philanthropy)	600	-
Student Support	<u>250</u>	<u>-</u>
Total operating expenses and grants	<u>118,427</u>	<u>101,186</u>
Operating loss	<u>(8,153)</u>	<u>(7,226)</u>
Nonoperating Revenues (Expenses)		
Interest and dividends on investments	19,845	19,499
Securities lending income, net	76	95
Realized gains on investments	60,267	22,672
Increase in market value of investments	14,051	23,679
Change in value of split interest agreements	<u>(5,527)</u>	<u>(4,352)</u>
Net nonoperating revenues	<u>88,712</u>	<u>61,593</u>
Income before other changes in net assets	80,559	54,367
Other changes in net assets:		
Private gifts of permanent endowments	<u>36,325</u>	<u>31,313</u>
Increase in net assets	116,884	85,680
Net assets:		
Beginning of year	<u>1,016,334</u>	<u>930,654</u>
End of year	<u>\$ 1,133,218</u>	<u>\$ 1,016,334</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, 2006 and 2005

	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Contributions	\$ 124,106	\$ 99,545
Operating expenses and grants	<u>(118,616)</u>	<u>(111,503)</u>
Net cash provided by (used in) operating activities	<u>5,490</u>	<u>(11,958)</u>
Cash flows from noncapital financing activities		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	<u>36,325</u>	<u>31,313</u>
Net cash provided by noncapital financing activities	<u>36,325</u>	<u>31,313</u>
Cash flows from investing activities		
Proceeds from sales of investments	97,120	88,020
Purchases of investments	(158,971)	(130,021)
Interest and dividends on investments	20,659	19,551
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>(41,192)</u>	<u>(22,450)</u>
Net increase (decrease) in cash	623	(3,095)
Cash, beginning of year	<u>837</u>	<u>3,932</u>
Cash, end of year	<u>\$ 1,460</u>	<u>\$ 837</u>
Reconciliation of net operating revenues to net cash used in operating activities		
Operating loss	\$ (8,153)	\$ (7,226)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Allowance for uncollectible receivables	713	423
Changes in assets and liabilities:		
Accounts receivable	2,727	(3,486)
Pledges receivable, net	7,551	8,060
Notes receivable	3	(6)
Funds held in trust by others	2,819	610
Accounts and grants payable	(16)	(7,661)
Annuities payable	(173)	(2,656)
Deferred revenue	<u>19</u>	<u>(16)</u>
Net cash provided by (used by) operating activities	<u>\$ 5,490</u>	<u>\$ (11,958)</u>
Supplemental noncash activities information		
Gifts of personal or real property	\$ 4,856	\$ 4,821
Gifts of securities	17,896	9,087
Security lending activity	(6,746)	16,858

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. The consolidated financial statements include the accounts of The UCLA Foundation, The UCLA Foundation Trusts, and The UCLA Foundation Pooled Income Fund.

2. Summary of Significant Accounting Policies

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

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

Investments

Investments are generally carried at fair 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. Alternative investments are valued as reported by the General Partners and Fund Managers. As limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

Short-term investments consist of U.S. government and corporate obligations with a maturity date of less than one year. Short-term investments are carried at cost, which approximates market value. All endowment and trust investments are classified as noncurrent regardless of maturity due to restrictions limiting The UCLA Foundation’s ability to use these investments.

The UCLA Foundation

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

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.

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.

The UCLA Foundation

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

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

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

Revenues and Expenses

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

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

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

Endowments

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

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

The UCLA Foundation follows the Uniform Management of Institutional Funds Act (“UMIFA”) of 1992. Under UMIFA, annual spending (payout) may be taken from investment income, and net realized and unrealized investment gains. The annual payout rate currently is 4.9% of the average market value of the endowment investment pool on a rolling 36-month basis. Payout is distributed to individual funds monthly based on the number of units in each fund at the beginning of the month.

Annuity and Life Income Funds

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

The UCLA Foundation

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

The UCLA Foundation Trusts

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

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

Pooled Income Fund

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

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.

The UCLA Foundation

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain amounts from the prior year's financials have been reclassified to conform to current year presentation.

Income Taxes

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

3. Investments

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, The UCLA Foundation's investments are reported by investment type at market value in the Composition of Investments below. GASB 40 also requires the disclosure of various types of investment risks based on the type of investment, as well as, stated policies adopted by The UCLA Foundation to manage those risks.

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

The UCLA Foundation

Notes to Consolidated Financial Statements

3. Investments (Continued)

Composition of Foundation Investments

	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Equity securities:		
Domestic	\$ 103,937	\$ 115,224
Foreign	<u>73,881</u>	<u>54,790</u>
Subtotal equity securities	<u>177,818</u>	<u>170,014</u>
Fixed income securities:		
U.S. government guaranteed:		
U.S. Treasury bills	683	–
U.S. Treasury notes	9,399	13,047
U.S. Treasury bonds	<u>246</u>	<u>280</u>
Subtotal U.S. Treasury	<u>10,328</u>	<u>13,327</u>
U.S. government backed – asset-backed securities	<u>21</u>	<u>25</u>
Subtotal U.S. government guaranteed	<u>10,349</u>	<u>13,352</u>
Other U.S. dollar denominated:		
Corporate bonds	292	363
U.S. agencies – asset-backed securities	2	4
Other	<u>788</u>	<u>857</u>
Subtotal other U.S. dollar denominated	<u>1,082</u>	<u>1,224</u>
Private equity	126,116	81,392
Mortgage loans	5,475	2,128
Real estate	23,194	19,912
Futures and options contracts	–	97
Commingled funds – absolute return	164,469	124,772
Commingled funds – balanced funds	25,378	3,557
Commingled funds – U.S. equity funds	130,076	154,490
Commingled funds – non-U.S. equity funds	106,433	46,305
Commingled funds – U.S. bond funds	87,220	103,301
Commingled funds – non-U.S. bond funds	2,849	2,568
Commingled funds – money market funds	141,183	133,750
Other investments:		
Other	<u>969</u>	<u>1,007</u>
Total investments	<u>\$ 1,002,611</u>	<u>\$ 857,869</u>

The UCLA Foundation

Notes to Consolidated Financial Statements

3. Investments (Continued)

Credit Risks

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

Credit Risk Profile of Foundation Investments	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Fixed income securities:		
U.S. government guaranteed	\$ <u>10,349</u>	\$ <u>13,352</u>
Other U.S. dollar denominated:		
AAA	409	293
AA	380	394
A	206	389
BB	-	147
B	87	-
Not rated	<u>-</u>	<u>1</u>
Total other U.S. dollar denominated	<u>1,082</u>	<u>1,224</u>
Commingled funds:		
U.S. bond funds: Not rated	87,220	103,301
Non-U.S. bond funds: Not rated	2,849	2,568
Money market funds: Not rated	<u>141,183</u>	<u>133,750</u>
Total commingled funds	<u>231,252</u>	<u>239,619</u>
Mortgage loans: Not rated	<u>5,475</u>	<u>2,128</u>
Total funds subject to credit risk	<u>\$ 248,158</u>	<u>\$ 256,323</u>

Custodial Risk

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

The UCLA Foundation

Notes to Consolidated Financial Statements

3. Investments (Continued)

Concentration of Credit Risk

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

Interest Rate Risk

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

Interest Rate Risk Associated with Foundation Investments & Investments Sensitive to Changes in Interest Rates	<u>2006</u>	<u>2005</u>
<i>(effective duration in years)</i>		
Fixed income securities:		
U.S. government:		
U.S. Treasury bills	0.2	–
U.S. Treasury notes	3.2	3.2
U.S. Treasury bonds	7.4	8.1
U.S. government backed – asset backed securities	3.2	0.6
Other U.S. dollar denominated:		
Corporate bonds	2.1	2.5
U.S. agencies – asset-backed securities	–	0.2
Supranational/foreign	1.0	1.0
Other	3.1	2.8
Commingled funds – U.S. bond funds	5.3	4.2
Commingled funds – non-U.S. bond funds	5.6	5.1
Commingled Funds – money market funds	1.2	2.0
Mortgage pass-through securities	\$23	\$28
Collateralized mortgage obligations	–	1

The UCLA Foundation

Notes to Consolidated Financial Statements

3. Investments (Continued)

Foreign Currency Risk

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

Foreign Currency Risk Associated with Foundation Investments

	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Equity Securities		
Australian Dollar	\$ 1,610	\$ 2,412
Brazilian Real	1,392	–
British Pound	16,153	9,910
Canadian Dollar	894	3,416
Danish Krone	815	214
Euro	21,317	16,296
Hong Kong Dollar	3,464	1,662
Indian Rupee	683	–
Japanese Yen	13,609	11,392
Mexico Nuevo Peso	808	423
Miscellaneous	1,934	682
Norwegian Kroner	396	–
Singapore Dollar	1,650	799
South African Rand	177	732
South Korean Won	831	–
Swedish Krona	822	1,797
Swiss Franc	<u>7,326</u>	<u>5,055</u>
Total exposure to foreign currency risk	<u>\$ 73,881</u>	<u>\$ 54,790</u>
Commingled Funds		
Various currency denominations:		
Balanced funds	\$ 933	\$ 775
Non-U.S. equity	105,573	42,911
Non-U.S. bond	2,849	1,900

The UCLA Foundation

Notes to Consolidated Financial Statements

3. Investments (Continued)

Futures and Options Contracts

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

	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Futures and Options Contracts		
Futures contracts – notional value	\$ –	\$ 3,383
Futures contracts – fair value	–	97

4. Investment Performance

The UCLA Foundation's return for Short-term Investments was 4.1% (2005: 3.7%). The return on endowed funds for the year ended June 30, 2006 was 13.2% (2005: 10.4%).

5. Pledges Receivable

Pledges receivable are unconditional promises to pay a certain amount and consist of the following at June 30, 2006:

	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Pledges receivable	\$ 266,843	\$ 286,827
Less:		
Allowance for uncollectible pledges	(6,704)	(9,991)
Discount for future payments	<u>(52,569)</u>	<u>(61,002)</u>
Net pledges receivable	<u>\$ 207,570</u>	<u>\$ 215,834</u>
Current pledges receivable, net	\$ 36,756	\$ 48,403
Noncurrent pledges receivable, net	<u>170,814</u>	<u>167,431</u>
	<u>\$ 207,570</u>	<u>\$ 215,834</u>

The allowance for uncollectible pledges has been established at 4% of pledge contribution revenue. Pledges due beyond one year have been discounted at an annual rate of 6%. Seventy-eight percent of the pledges receivable are from five donors. In 2005, seventy-nine percent of the pledges receivable were from five donors.

The UCLA Foundation

Notes to Consolidated Financial Statements

6. Amounts Held For Others

Amounts held for others as of June 30, 2006 of \$67.0 million (2005: \$58.0 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 assets are included in the Consolidated Statements of Net Assets as investments.

7. Revolving Line of Credit

In April 2002, The UCLA Foundation obtained a revolving line of credit for \$25 million from the Bank of New York expiring in April 2007, which is collateralized by cash and securities. There were no outstanding loan balances as of June 30, 2006 and 2005.

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 carries the loaned securities as assets in the Consolidated Statement of Net Assets. In addition, The UCLA Foundation has recorded an asset and an offsetting liability of \$50.4 million and \$57.1 million as of June 30, 2006 and 2005, respectively, to reflect the cash collateral related to the lent securities under the securities lending agreement.

The UCLA Foundation does not maintain specific policies related to investment risks of security lending investments. However, the lending agreement with Bank of New York establishes restrictions for the investment of cash collateral including the type of investments allowed and minimum credit ratings. Policies or restrictions related to concentration risk, custody risk and interest rate risk are not specifically defined; however, the investments are not subject to custody risk. Investments in foreign securities are not allowed.

The UCLA Foundation

Notes to Consolidated Financial Statements

8. Securities Lending (Continued)

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

Securities Lending – Composition of Investments

	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Securities Lent		
<i>For cash collateral:</i>		
Equity securities:		
Domestic	\$ 49,531	\$ 49,617
Foreign	<u> –</u>	<u> 5,735</u>
Total securities lent for cash collateral	<u> 49,531</u>	<u> 55,352</u>
<i>For securities collateral:</i>		
Equity securities:		
Domestic	<u> 447</u>	<u> –</u>
Total collateral received	49,978	55,352
Collateral Received		
Cash	<u> 50,372</u>	<u> 57,118</u>
Total cash collateral received	<u> \$ 50,372</u>	<u> \$ 57,118</u>
Investment of Cash Collateral		
Fixed income securities:		
Other U.S. dollar denominated:		
Corporate bonds	\$ 10,000	\$ 22,996
Repurchase agreements	8,032	8,711
Corporate – asset-backed securities	9,347	7,398
Certificates of deposit/time deposits	9,995	6,997
Other (Bank Notes)	12,998	10,997
Cash	<u> –</u>	<u> 19</u>
Total investment of cash collateral	<u> \$ 50,372</u>	<u> \$ 57,118</u>
Securities Lending Income and Expense		
Securities lending income	\$ 1,752	\$ 1,312
Securities lending fees and rebates	<u> (1,676)</u>	<u> (1,217)</u>
Securities lending investment income, net	<u> \$ 76</u>	<u> \$ 95</u>

The UCLA Foundation

Notes to Consolidated Financial Statements

8. Securities Lending (Continued)

Securities Lending – Credit Risk Profile of Foundation Investments

	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Fixed income securities:		
Other U.S. dollar denominated:		
AAA	\$ 10,347	\$ 9,398
AA	20,496	25,491
A	11,497	9,999
A1 / P1	–	3,499
Not rated	<u>8,032</u>	<u>8,712</u>
Total investment of cash collateral	<u>\$ 50,372</u>	<u>\$ 57,099</u>

Securities Lending – Concentration Risk Profile of Foundation Investments

	<i>(in thousands)</i>	
	<u>2006</u>	<u>2005</u>
Issuer:		
Deutsche Bank Securities Inc.	\$ –	\$ 8,711
AIG Sun America Global Finance XXXXI	–	2,998
Morgan Stanley & Company Inc.	8,056	–

At June 30, 2006, the threshold for concentration risk was \$2,519,000 (5% of total cash collateral invested of \$50,372,000). At June 30, 2005, the threshold for concentration risk was \$2,855,000 (5% of total cash collateral invested of \$57,099,000).

Securities Lending – Interest Rate Risk Profile of Foundation Investments

<i>(weighted average maturity in days)</i>	<u>2006</u>	<u>2005</u>
Fixed income securities:		
Other U.S. dollar denominated:		
Corporate bonds	44.3	42.6
Repurchase agreements	3.0	1.0
Corporate - asset-backed securities	25.0	25.0
Certificates of deposit/time deposits	13.5	16.9
Bank Notes	17.2	25.3
Commingled Funds	–	1.0

Investments highly sensitive to changes in interest rates include asset-backed securities of \$9,347,000 and \$7,398,000 for fiscal year 2006 and 2005, respectively. The weighted average maturity is 588 days and 554 days for fiscal year 2006 and 2005, respectively.

The UCLA Foundation

Notes to Consolidated Financial Statements

9. Commitments

As of June 30, 2006, The UCLA Foundation has contractual commitments to invest an additional \$98 million in various limited partnership investments through November 3, 2016.