

The UCLA Foundation

**Audited Consolidated Financial Statements
For the Years Ended June 30, 2009 and 2008**

The UCLA Foundation
Index
June 30, 2009 and 2008

	Page
Report of Independent Auditors	1
Management's Discussion and Analysis (Unaudited).....	2
 Consolidated Financial Statements	
Consolidated Statements of Net Assets As of June 30, 2009 and 2008	5
Consolidated Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended June 30, 2009 and 2008.....	6
Consolidated Statements of Cash Flows For the Years Ended June 30, 2009 and 2008.....	7
Notes to Consolidated Financial Statements June 30, 2009 and 2008	8

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, 2009 and 2008, 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 4 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 14, 2009

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 ("The Foundation") is to encourage financial support for University of California, Los Angeles ("UCLA") through private gifts. In addition, The 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 Foundation's financial performance presents an overview of its financial activities for the fiscal year ended June 30, 2009 with selected comparative information for the year ended June 30, 2008. 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

Fiscal year 2009 ("FY09") was a challenging year for The UCLA Foundation. The U.S. recession, along with the severe worldwide investment market downturn was reflected in The Foundation's negative endowed investment pool return of (21%) for the year. The Foundation's net assets, which represent the excess of total assets over total liabilities, decreased by \$236 million to \$1.2 billion as of June 30, 2009, primarily a result of negative investment returns. Total assets decreased 15% to approximately \$1.4 billion and total liabilities decreased 4% to \$188 million as of June 30, 2009.

The Foundation's revenue in the form of donor contributions totaled \$97.5 million for FY09, a 47% decrease as compared to fiscal year 2008 ("FY08"). To support Campus initiatives, The Foundation's expenditures in the form of grants and transfers to the Campus were increased 8% to \$151.5 million over FY08. The decreased contribution revenue combined with increased campus support resulted in an operating loss of \$54.0 million for FY09 as compared to operating income of \$43.9 in FY08. Due to negative investment returns in FY09, The Foundation had a non-operating loss of \$227.3 million. Other income in the form of private gifts of permanent endowments totaled \$45.3 million.

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 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) are one indicator of The Foundation's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of The Foundation's financial condition when considered in combination with other non-financial 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 non-operating; with gifts reported as operating revenue and investment results reported as non-operating 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 sources and uses of cash of an entity during a given period.

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

Condensed Consolidated Statements of Net Assets

(in thousands)

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
ASSETS						
Current assets	\$ 248,882	18%	\$ 270,041	17%	\$ 241,615	16%
Non-current assets	<u>1,104,025</u>	<u>82</u>	<u>1,327,178</u>	<u>83</u>	<u>1,237,757</u>	<u>84</u>
Total assets	<u>1,352,907</u>	<u>100</u>	<u>1,597,219</u>	<u>100</u>	<u>1,479,372</u>	<u>100</u>
LIABILITIES						
Current liabilities	150,626	80	150,940	77	132,300	74
Non-current liabilities	<u>37,415</u>	<u>20</u>	<u>45,408</u>	<u>23</u>	<u>47,515</u>	<u>26</u>
Total liabilities	<u>188,041</u>	<u>100</u>	<u>196,348</u>	<u>100</u>	<u>179,815</u>	<u>100</u>
NET ASSETS						
Restricted:						
Nonexpendable	496,650	43	519,527	37	452,429	35
Expendable	668,057	57	867,295	62	843,088	64
Unrestricted	<u>159</u>	<u>0</u>	<u>14,049</u>	<u>1</u>	<u>4,040</u>	<u>1</u>
Total net assets	<u>\$ 1,164,866</u>	<u>100%</u>	<u>\$ 1,400,871</u>	<u>100%</u>	<u>\$ 1,299,557</u>	<u>100%</u>

The Condensed Consolidated Statements of Net Assets shows assets, liabilities and net assets for fiscal years 2009, 2008 and 2007. In FY09, the Foundation's total assets decreased by \$244.3 million to approximately \$1.4 billion. Current assets decreased by \$21.2 million to \$248.9 million and represented 18% of total assets (2009: 18%, 2008: 17%; 2007: 16%). Current assets consist primarily of short-term investments, pledges receivable within one year and cash collateral invested under a securities lending agreement.

Non-current assets decreased by \$223.2 million to \$1.1 billion and comprised 82% of total assets (2009: 82%, 2008: 83%; 2007: 84%). Non-current assets consist primarily of long term investments and pledges receivable due after one year.

In FY09, the Foundation's total liabilities decreased by \$8.3 million to \$188.0 million. Current liabilities decreased by \$0.3 million to \$150.6 million and comprised 80% of total liabilities (2009: 80%, 2008: 77%; 2007: 74%). Current liabilities consist primarily of Amounts Held for Others, which increased by \$41.9 million and a Payable under the Securities Lending agreement, which decreased by \$40.2 million from FY08 to FY09.

Non-current liabilities decreased by \$8.0 million to \$37.4 million and comprised 20% of total liabilities (2009: 20%, 2008: 23%; 2007: 26%). Non-current liabilities consist of Annuities Payable and Liabilities to Life Beneficiaries.

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

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

(In thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenue and expenses			
Contributions	\$ 97,472	\$ 184,652	\$ 146,417
Expenses	<u>151,458</u>	<u>140,771</u>	<u>162,582</u>
Operating (loss)/income	(53,986)	43,881	(16,165)
Non-operating revenues and expenses			
Interest and dividends on investments	19,302	20,833	22,725
Realized (loss)/gain on investments	(42,330)	48,589	54,661
(Decrease)/ increase in market value of investments	(206,317)	(74,898)	76,128
Change in value of split interest agreements	<u>2,029</u>	<u>1,247</u>	<u>(10,657)</u>
Net non-operating (loss)/income	(227,316)	(4,229)	142,857
Private gifts of permanent endowments	<u>45,297</u>	<u>61,662</u>	<u>39,647</u>
(Decrease)/increase in net assets	(236,005)	101,314	166,339
Net Assets			
Net assets, beginning of year	<u>1,400,871</u>	<u>1,299,557</u>	<u>1,133,218</u>
Net assets, end of year	<u>\$ 1,164,866</u>	<u>\$ 1,400,871</u>	<u>\$ 1,299,557</u>

The Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Assets summarizes Operating income, Non-operating income and Private gifts of permanent endowments for fiscal years 2009, 2008 and 2007. During FY09, The UCLA Foundation's net assets decreased \$236.0 million primarily due to lower gifts and \$227.3 million of non-operating investment losses.

In FY09, The Foundation recorded a \$54.0 million operating loss, as support to the Campus exceeded contributions. As compared to FY08, operating revenues decreased by 47% to \$97.5 million versus \$184.7 million in FY08 and \$146.4 million in FY07, both banner fundraising years for The Foundation. Operating expenses increased by \$10.7 million over FY08 to \$151.5 million in the form of additional grants and transfers to the Campus.

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
As of June 30, 2009 and 2008
(in thousands)

	2009	2008
Assets		
Current assets		
Cash	\$ 1,779	\$ 720
Short-term investments	163,366	152,324
Accounts receivable	3,812	8,711
Accrued investment income	929	753
Pledges receivable, net	53,077	41,593
Notes receivable	16	32
Funds held in trust by others	216	16
Collateral under securities lending agreement	<u>25,687</u>	<u>65,892</u>
Total current assets	<u>248,882</u>	<u>270,041</u>
Non-current assets		
Long-term investments	944,864	1,152,048
Investments in land and buildings	27,704	27,759
Accounts receivable	2,188	2,070
Notes receivable	486	502
Pledges receivable, net	120,152	138,222
Funds held in trust by others	<u>8,631</u>	<u>6,577</u>
Total non-current assets	<u>1,104,025</u>	<u>1,327,178</u>
Total assets	<u>\$ 1,352,907</u>	<u>\$ 1,597,219</u>
Liabilities and Net Assets		
Current liabilities		
Accounts and grants payable	\$ 1,189	\$ 2,056
Annuities payable	2,905	3,083
Liabilities to life beneficiaries	2,321	3,272
Amounts held for others	118,524	76,637
Payable under securities lending agreement	<u>25,687</u>	<u>65,892</u>
Total current liabilities	<u>150,626</u>	<u>150,940</u>
Non-current liabilities		
Annuities payable	18,999	20,252
Liabilities to life beneficiaries	<u>18,416</u>	<u>25,156</u>
Total non-current liabilities	<u>37,415</u>	<u>45,408</u>
Total liabilities	<u>188,041</u>	<u>196,348</u>
Net assets		
Restricted for		
Nonexpendable		
Endowments	482,845	499,459
Annuity and life income fund	13,805	20,068
Expendable		
Endowment earnings	100,475	220,597
Annuity and life income fund	15,390	17,572
Funds functioning as endowments	384,596	464,852
Gifts	167,596	164,274
Unrestricted	<u>159</u>	<u>14,049</u>
Total net assets	<u>1,164,866</u>	<u>1,400,871</u>
Total liabilities and net assets	<u>\$ 1,352,907</u>	<u>\$ 1,597,219</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
For the Years Ended June 30, 2009 and 2008
(in thousands)

	2009	2008
Revenues		
Operating revenues		
Contributions	\$ 97,472	\$ 184,652
Total operating revenues	<u>97,472</u>	<u>184,652</u>
Expenses		
Operating expenses and grants		
UCLA Scholarships, research and other purposes	129,351	120,099
UCLA Chancellor's Priorities	7,000	7,000
Gift Administration Fees	7,488	10,699
UCLA Telemarketing program	1,500	1,500
General expenditures	964	861
UCLA Alumni Association	400	350
Others grants to UCLA	5	12
Special Projects	4,500	-
Student Support	<u>250</u>	<u>250</u>
Total operating expenses and grants	<u>151,458</u>	<u>140,771</u>
Operating (loss)/income	<u>(53,986)</u>	<u>43,881</u>
Non-operating revenues (expenses)		
Interest and dividends on investments	19,097	20,599
Securities lending income, net	205	234
Realized (losses)/gains on investments	(42,330)	48,589
Decrease in market value of investments	(206,317)	(74,898)
Change in value of split interest agreements	<u>2,029</u>	<u>1,247</u>
Net non-operating expenses	<u>(227,316)</u>	<u>(4,229)</u>
(Loss)/income before other changes in net assets	(281,302)	39,652
Other changes in net assets		
Private gifts of permanent endowments	<u>45,297</u>	<u>61,662</u>
(Decrease)/increase in net assets	(236,005)	101,314
Net assets		
Beginning of year	<u>1,400,871</u>	<u>1,299,557</u>
End of year	<u>\$ 1,164,866</u>	<u>\$ 1,400,871</u>

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

The UCLA Foundation
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008
(in thousands)

	2009	2008
Cash flows from operating activities		
Contributions	\$ 106,617	\$ 190,332
Operating expenses and grants	<u>(161,447)</u>	<u>(142,123)</u>
Net cash (used in)/provided by operating activities	<u>(54,830)</u>	<u>48,209</u>
Cash flows from non-capital financing activities		
Gifts and grants received for other than capital purposes		
Private gifts for endowment purposes	<u>45,297</u>	<u>61,662</u>
Net cash provided by non-capital financing activities	<u>45,297</u>	<u>61,662</u>
Cash flows from investing activities		
Proceeds from sales of investments	141,601	119,736
Purchases of investments	(150,135)	(251,274)
Interest and dividends on investments	19,126	21,656
Proceeds from revolving line of credit	40,000	25,000
Payments under revolving line of credit	<u>(40,000)</u>	<u>(25,000)</u>
Net cash provided by/(used in) investing activities	<u>10,592</u>	<u>(109,882)</u>
Net increase/(decrease) in cash	1,059	(11)
Cash, beginning of year	<u>720</u>	<u>731</u>
Cash, end of year	<u>\$ 1,779</u>	<u>\$ 720</u>
Reconciliation of net operating revenues to net cash (used in)/provided by operating activities		
Operating (loss)/income	\$ (53,986)	\$ 43,881
Adjustments to reconcile operating (loss) /income to net cash provided by/(used in) operating activities		
Provision for uncollectable receivables	1,664	818
Changes in assets and liabilities		
Accounts receivable	4,781	(6,589)
Pledges receivable, net	4,922	9,701
Notes receivable	32	59
Funds held in trust by others	(2,254)	1,691
Accounts and grants payable	(867)	705
Annuities payable	(1,431)	1,689
Liabilities to life beneficiaries	<u>(7,691)</u>	<u>(3,746)</u>
Net cash (used in)/provided by operating activities	<u>\$ (54,830)</u>	<u>\$ 48,209</u>
Supplemental noncash activities information		
Gifts of personal or real property	\$ —	\$ 19,432
Gifts of securities	16,060	54,483
Securities lending activity	(40,205)	18,292

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

The UCLA Foundation

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

1. Organization

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 consolidated 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 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 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 primarily of the Regent's Short-Term Investment Pool ("Regent's STIP"). Short-term investments are carried at cost, which approximates market value. All endowment and trust investments are classified as non-current regardless of maturity due to restrictions limiting The UCLA Foundation's ability to use these investments.

The net change in the fair value of investments represents both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains or losses are computed based on specific identification of investments sold. Any gains recognized on the sale of short-term investments are available for distribution.

The UCLA Foundation

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

2. Summary of Significant Accounting Policies (Continued)

Pledges Receivable

Pledges are written unconditional promises to make future payments. Pledges meeting the time requirements specified by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* ("GASB 33") are included in the consolidated 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, 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. Real estate properties currently listed for sale are recorded at appraised value or present fair value, 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.

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 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 consolidated financial statements as operating activities.

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

The UCLA Foundation

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

2. Summary of Significant Accounting Policies (Continued)

Revenues and Expenses (Continued)

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 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 for the fiscal year ended June 30, 2009 ("FY09") was 4.5% of the average market value of the endowment investment pool on a rolling 36-month basis. 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.

Pooled Income Fund

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

The UCLA Foundation

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

2. Summary of Significant Accounting Policies (Continued)

Pooled Income Fund (Continued)

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

Gift Annuity Fund

Gift annuities are planned giving vehicles, whereby donors gift assets in exchange for annuity payments over 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, respectively.

3. Investments

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

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

The UCLA Foundation
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

3. Investments (Continued)

Composition of Foundation Investments

<i>(in thousands)</i>	2009	2008
Equity securities		
Domestic	\$ 28,528	\$ 37,953
Foreign	<u>61,125</u>	<u>87,710</u>
Subtotal equity securities	<u>89,653</u>	<u>125,663</u>
Fixed income securities		
U.S. government guaranteed		
U.S. Treasury notes	8,958	10,972
U.S. Treasury bonds	<u>256</u>	<u>258</u>
Subtotal U.S. Treasury	9,214	11,230
U.S. government backed – asset-backed securities	<u>13</u>	<u>14</u>
Subtotal U.S. government guaranteed	<u>9,227</u>	<u>11,244</u>
Other U.S. dollar denominated		
Corporate bonds	–	80
U.S. agencies – asset-backed securities	1	2
Supranational/foreign	<u>1</u>	<u>1</u>
Subtotal other U.S. dollar denominated	<u>2</u>	<u>83</u>
Private equity	143,150	155,909
Mortgage loans	12,624	9,715
Real estate	40,791	57,797
Commingled funds – absolute return	251,864	289,505
Commingled funds – balanced funds	17,263	24,613
Commingled funds – U.S. equity funds	119,578	160,621
Commingled funds – non-U.S. equity funds	95,681	154,031
Commingled funds – U.S. bond funds	104,419	98,519
Commingled funds – non-U.S. bond funds	2,982	3,885
Commingled funds – money market funds	155,140	146,186
Commingled funds – real estate	7,942	10,522
Other investments	<u>57,914</u>	<u>56,079</u>
Total investments	<u>\$ 1,108,230</u>	<u>\$ 1,304,372</u>

The UCLA Foundation
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

3. Investments (Continued)

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The Credit Risk Profile of 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>	2009	2008
Fixed income securities		
U.S. government guaranteed	\$ <u>9,227</u>	\$ <u>11,244</u>
Other U.S. dollar denominated		
AAA	1	2
AA	—	—
A	1	1
BB	—	—
B	—	80
Not rated	<u>—</u>	<u>—</u>
Total other U.S. dollar denominated	<u>2</u>	<u>83</u>
Commingled funds		
U.S. bond funds: Not rated	104,419	98,519
Non-U.S. bond funds: Not rated	2,982	3,885
Money market funds: Not rated	<u>155,140</u>	<u>146,186</u>
Total commingled funds	<u>262,541</u>	<u>248,590</u>
Mortgage loans: Not rated	<u>12,624</u>	<u>9,715</u>
Total funds subject to credit risk	<u>\$ 284,394</u>	<u>\$ 269,632</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.

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.

The UCLA Foundation
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

3. Investments (Continued)

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 Barclays Capital Aggregate Bond Index plus or minus one and one-half years. This policy does not apply to investments in the unendowed investment pool including Regents STIP or other money market funds.

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

(effective duration in years)	2009	2008
Fixed income securities		
U.S. government		
U.S. Treasury notes	2.6	3.5
U.S. Treasury bonds	6.3	6.5
U.S. government backed – asset backed securities	3.1	4.0
Other U.S. dollar denominated		
Corporate bonds	–	2.4
U.S. agencies – asset-backed securities	0.2	0.2
Supranational/foreign	1.1	1.0
Commingled funds – U.S. bond funds	4.2	4.7
Commingled funds – non-U.S. bond funds	7.9	5.8
Commingled funds – money market funds	1.5	1.7
Mortgage loans (fixed rate)	5.4	5.9

Investments Highly Sensitive to Changes in Interest Rates

(in thousands of dollars)

Mortgage backed securities	\$13.0	\$14.0
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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.

The UCLA Foundation
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

3. Investments (Continued)

Foreign Currency Risk Associated with Foundation Investments

<i>(in thousands)</i>	2009	2008
Equity Securities		
Australian Dollar	\$ 2,269	\$ 3,304
Brazilian Real	2,759	5,440
British Pound	8,933	10,776
Canadian Dollar	2,499	2,551
Danish Krone	1,063	1,253
Euro	14,219	25,211
Hong Kong Dollar	7,626	4,179
Indian Rupee	1,638	1,986
Japanese Yen	9,093	13,083
Mexico Nuevo Peso	853	1,233
Miscellaneous	2,658	7,324
Norwegian Krone	1,036	597
Singapore Dollar	416	1,810
South African Rand	394	527
South Korean Won	336	502
Swiss Franc	<u>5,333</u>	<u>7,934</u>
Total exposure to foreign currency risk	<u>\$ 61,125</u>	<u>\$ 87,710</u>

Commingled Funds

Various currency denominations		
Balanced funds	\$ 990	\$ 1,112
Non-U.S. equity	95,302	153,572
Non-U.S. bond	1,969	3,885
Real Estate	2,108	3,360

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.

4. Investment Performance

For parties invested in The UCLA Foundation's unendowed investment pool for the year ended June 30, 2009, the return was 3.5% (2008: 4.6%). The return on the endowed investment pool for the year ended June 30, 2009 was (21%) (2008: 0.2%). The return on the combined planned giving investment pools was (13.6%) (2008: (3.9%)).

The UCLA Foundation
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

5. Pledges Receivable

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

<i>(in thousands)</i>	2009	2008
Pledges receivable	\$ 232,747	\$ 210,882
Less		
Allowance for uncollectible pledges	(5,937)	(5,576)
Discount for future payments	<u>(53,581)</u>	<u>(25,491)</u>
Net pledges receivable	<u>\$ 173,229</u>	<u>\$ 179,815</u>
Current pledges receivable, net	\$ 53,077	\$ 41,593
Non-current pledges receivable, net	<u>120,152</u>	<u>138,222</u>
	<u>\$ 173,229</u>	<u>\$ 179,815</u>

The Foundation has established a pledge allowance for all new pledge gifts received, net of discount. In FY09, the allowance reserve was at 4%, increased from 2% as compared to the fiscal year ended June 30, 2008 ("FY08"). Pledges due beyond one year have been discounted at an annual rate of 3.6% for pledges received in FY09 and 5% for FY08. 54% of the pledges receivable, net of discount, are from five donors as compared to 67% in FY08.

6. Amounts Held For Others

Amounts held for others as of June 30, 2009 of \$118.5 million (2008: \$76.6 million) represent amounts held by The UCLA Foundation under agency relationships with various support groups of UCLA and other outside entities. 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 Consolidated Statements of Net Assets as investments.

7. Revolving Line of Credit

The UCLA Foundation has a revolving line of credit for \$40 million from the Bank of New York Mellon expiring in April 2012, which is collateralized by cash and securities. There were no outstanding loan balances as of June 30, 2009 or 2008.

8. Securities Lending

The UCLA Foundation has a securities lending agreement with the Bank of New York Mellon. Income earned from the lending transactions is recorded as investment income. The Foundation's lending agreement with Bank of New York Mellon includes restrictions for the investment of cash collateral including the type of investments allowed, minimum credit ratings and other policies and guidelines to manage credit risk and concentration risk. The Foundation executed an amendment to this agreement in October 2008 which restricts the collateral to securities issued or fully guaranteed by the U. S. government and any agency, instrumentality or establishment of the U.S. government. As of June 30, 2009 The Foundation continued to hold investments which met the previous criteria. These will be held until maturity.

The UCLA Foundation
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

8. Securities Lending (Continued)

Additionally, Bank of New York Mellon indemnifies the Foundation against borrower default. These transactions are short-term in nature and therefore there is no significant interest rate risk associated with them. These investments are not subject to custody risk.

The UCLA Foundation carries the loaned securities as assets in the Consolidated Statement of Net Assets. In addition, The UCLA Foundation has recorded an asset and an offsetting liability of \$25.7 million and \$65.9 million as of June 30, 2009 and 2008, respectively, to reflect the cash collateral related to the lent securities under the securities lending agreement.

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>	2009	2008
Securities lent		
For cash collateral		
Equity securities – domestic	\$ 24,915	\$ 64,052
Total securities lent for cash collateral	<u>24,915</u>	<u>64,052</u>
Collateral received		
Cash	\$ 25,687	\$ 65,892
Total cash collateral received	<u>\$ 25,687</u>	<u>\$ 65,892</u>
Investment of Cash Collateral		
Fixed income securities		
U.S. dollar denominated		
Corporate bonds	\$ 7,509	\$ 9,524
Repurchase agreements	11,252	22,064
Corporate – asset-backed securities	2,000	2,250
Certificates of deposit/time deposits	2,926	15,017
Commingled Funds – money market	–	10,019
Other (Bank Notes)	<u>2,000</u>	<u>7,018</u>
Total investment of cash collateral	<u>\$ 25,687</u>	<u>\$ 65,892</u>
Securities Lending Income and Expense		
Securities lending income	\$ 875	\$ 2,278
Securities lending fees and rebates	<u>(670)</u>	<u>(2,044)</u>
Securities lending income, net	<u>\$ 205</u>	<u>\$ 234</u>

The UCLA Foundation
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

8. Securities Lending (Continued)

Securities Lending – Credit Risk Profile of Foundation Investments

<i>(in thousands)</i>	2009	2008
Fixed income securities		
U.S. dollar denominated		
AAA	\$ 2,000	\$ 7,272
AA	2,000	7,502
A	10,435	19,034
Not rated	11,252	22,065
Commingled Fund – money market (Not Rated)	<u>–</u>	<u>10,019</u>
Total investment of cash collateral	<u>\$ 25,687</u>	<u>\$ 65,892</u>

Securities Lending – Concentration Risk Profile of Foundation Investments

<i>(in thousands)</i>	2009	2008
Issuer		
Daiwa Securities America Inc	\$ –	\$ 22,065
Goldman Sachs Group	2,500	10,019
Deutsche Bank Securities	11,252	–
GE Capital Corporation	3,009	–
SunTrust Bank	2,926	–
Rabobank Nederland NV	2,000	–
Bank of America	2,000	–
J P Morgan Chase	2,000	–

At June 30, 2009, the threshold for concentration risk was \$1.3 million (5% of total cash collateral invested of \$25.7 million). At June 30, 2008, the threshold for concentration risk was \$3.3 million (5% of total cash collateral invested of \$65.9 million).

Securities Lending – Interest Rate Risk Profile of Foundation Investments

<i>(weighted average maturity in days to next reset date)</i>	2009	2008
Fixed income floating rate securities		
Other U.S. dollar denominated		
Corporate bonds	33.0	43.4
Repurchase agreements	1.0	1.0
Corporate – asset-backed securities	15.0	15.1
Certificates of deposit/time deposits	29.0	14.6
Bank Notes	15.0	23.4
Commingled funds – money market	–	1.0

Investments highly sensitive to changes in interest rates include asset-backed securities of \$2,000,000 and \$2,250,000 for the fiscal years ended 2009 and 2008, respectively. Correspondingly, the weighted average maturity is 412 days and 772 days.

The UCLA Foundation
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

9. Commitments

As of June 30, 2009, The UCLA Foundation has contractual commitments to invest an additional \$146 million in various limited partnership investments through December 31, 2020.