U.C. SANTA CRUZ FOUNDATION

Financial Statements

Years ended June 30, 2022 and 2021

(With Report of Auditors Thereon)

U.C. SANTA CRUZ FOUNDATION

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Report of Independent Auditors

To the Board of Trustees of the
University of California, Santa Cruz Foundation

Opinion

We have audited the accompanying financial statements of the University of California, Santa Cruz Foundation (the "Foundation"), a component unit of the University of California, which comprise the statements of net position as of June 30, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021 and its changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

The accompanying management's discussion and analysis on pages 3 through 7 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

September 13, 2022

U.C. Santa Cruz Foundation (the Foundation) has been dedicated to supporting the core endeavors of University of California, Santa Cruz (UCSC) – teaching, research, and public service since 1974. The Foundation encourages financial support for UCSC through private gifts. 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 UCSC through The Regents of the University of California (the Regents).

The following Management's Discussion and Analysis (MD&A) presents an overview of the financial performance of the Foundation for the fiscal years ended June 30, 2022 and 2021. The MD&A has been prepared by management and should be read in conjunction with and qualified in its entirety by the accompanying audited financial statements and accompanying notes.

Overview

This report consists of financial statements prepared in accordance with the statements of the Governmental Accounting Standards Board (the GASB). These financial statements, taken as a whole, focus on the financial condition of the Foundation, its changes in financial position and its cash flows.

One of the most important questions asked about the Foundation finances is whether the Foundation is better or worse as a result of the year's activities. The key to understanding the answer is the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. The Foundation's net position is one indicator of the Foundation's financial health. Over time, an increase or decrease in net position is one indicator of the improvement or erosion of the Foundation's financial health when considered with other nonfinancial information. In 2022 the Foundation experienced a decrease in net position by $11.7 million, while in 2021, the Foundation improved its financial condition as indicated by an increase in net position by $39.8 million.

The Statement of Net Position includes all assets, liabilities, and deferred inflows. The Statement of Revenues, Expenses, and Changes in Net Position presents revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Operating revenues include current use (non-endowed) gifts to the Foundation and operating expenses include grants to the campus. Investment results are reported as nonoperating revenues and gifts to permanent endowments are reflected in change in net position. Unlike for-profit enterprises, a loss in the Statements of Revenues, Expenses, and Changes in Net Position in the Foundation's financial statements is not necessarily indicative of poor financial performance since the Foundation's mandate is to make grants and disbursements for campus support.

Another way to assess the financial health of the Foundation is to look at the Statements of Cash Flows. The primary purpose is to provide relevant information about the cash receipts and cash payments of the Foundation. The Statement of Cash Flows help readers assess the Foundation's sources and uses of cash.

U.C. SANTA CRUZ FOUNDATION

Management's Discussion and Analysis

Years ended June 30, 2022 and 2021

Condensed Financial Information

	June 30 2022	June 30 2021	June 30 2020
Assets:			
Cash and cash equivalents	$ 1,160,509	$ 2,132,600	$ 2,755,082
Pledges receivable, net	8,759,267	9,616,476	10,464,729
Investments	147,677,429	158,063,893	117,292,264
Total assets	$ 157,597,205	$ 169,812,969	$ 130,512,075
Liabilities:			
Current liabilities	$ 1,215,586	$ 1,444,359	$ 2,157,542
Noncurrent liabilities	759,010	884,678	790,307
Total liabilities	$ 1,974,596	$ 2,329,038	$ 2,947,849
Deferred Inflows from Irrevocable Split interest Agreements	$ 808,148	$ 989,682	$ 844,918
Net position:			
Restricted			
Nonexpendable	$ 64,665,296	$ 57,483,380	$ 52,007,285
Expendable	89,334,019	108,088,139	74,013,840
Unrestricted	815,146	922,731	698,181
Total net position	$ 154,814,461	$ 166,494,250	$ 126,719,306
Revenues and expenses:			
Operating revenues	$ 16,094,457	$ 20,958,215	$ 17,590,399
Operating expenses:	23,735,649	25,821,586	21,242,014
Net operating income (loss)	(7,641,192)	(4,863,371)	(3,651,615)
Nonoperating income (loss)	(11,945,699)	39,166,748	5,516,798
Additions to permanent endowments	7,907,102	5,471,565	3,656,523
Change in net position	(11,679,789)	39,774,942	5,521,706
Net position:			
Beginning of year	166,494,250	126,719,308	121,197,600
End of year	$ 154,814,461	$ 166,494,250	$ 126,719,306

Financial Highlights

The Foundation's total assets decreased $12.2 million to $157.6 million at June 30, 2022, from $169.8 million at June 30, 2021. In 2021, the Foundation's total assets increased $39.3 million, from $130.5 million at June 30, 2020. For 2022 and 2021, the change (decrease in 2022 and increase in 2021) is primarily due to the change in the fair market value of investments.

The Foundation's endowment investments are comprised of shares of the UC General Endowment Pool (GEP). The share price of the GEP decreased from $56.92 at June 30, 2021 to $52.46 at June 30, 2022. The share price of the GEP increased from $42.83 at June 30, 2020 to $56.92 at June 30, 2021.

Gifts to the Foundation decreased by $2.4 million from $26.4 million in 2021 to $24 million in 2022. In 2022, gifts to the Foundation classified as operating revenues totaled $16.1 million and additions to permanent endowments totaled $7.9 million. Gifts to the Foundation increased between 2020 and 2021 from $21.2 million in 2020 to $26.4 million in 2021.

The Board of Trustees approved the annual endowment payouts for fiscal year 2022 of $4.4 million and $4.2 million for 2021, representing net payout rates of 4.2% of the three-year moving average fair market values, respectively for each year to qualifying endowments. The payout is distributed to UCSC departments, including financial aid for student assistance, in August of the following fiscal year. The net 4.2% payout rate represents a 4.75% payout less 0.55% of the three-year moving average, $656 thousand in 2022 and $582 thousand in 2021, for endowment administration to support costs of administering and carrying out the terms of the endowment. In addition to the annual endowment payout, the Board authorized a one-time additional payout to existing endowed student scholarships and fellowships to immediately lessen the financial burden on UC Santa Cruz students. This additional payout was to recognize the extraordinary returns on investments in FY21 and to support the campus Student Success Initiative. All student scholarship and fellowship endowments paid out an additional 2.1% in March 2022; this payout totaled $902 thousand.

Total Assets

The total assets of the Foundation decreased $12.2 million to $157.6 million at June 30, 2022, from $169.8 million at June 30, 2021. Total assets include cash (bank balances) and cash equivalents (the Short Term Investment Pool, STIP), investments in shares of the GEP, charitable trust investments (held by Bank of New York Mellon), beneficial interests in irrevocable split-interest agreements administered by third parties, and net pledges receivable. The 2022 decrease includes a $10.4 million decrease in investments, a $857 thousand decrease in net pledges receivable, and a decrease of $972 thousand in cash and cash equivalents. The allowance for uncollectible pledges remained approximately the same as in FY21 as there were no write-offs in FY22.

The increase in total assets during fiscal year 2021 from the prior year was $39.3 million. The 2021 increase includes a $40.8 million increase in investments, a $848 thousand decrease in net pledges receivable, and an approximate decrease of $622 thousand in cash and cash equivalents.

Total Liabilities

The Foundation's liabilities were $2 million at June 30, 2022 and $2.3 million June 30, 2021. The Foundation's liabilities at June 30, 2020 were $2.9 million. The decrease was primarily due to a decrease in accounts payable which represents gifts to be distributed to UCSC in the following month as well as a decrease in liabilities to life beneficiaries.

Operating and Nonoperating Revenues and Expenses

The Statements of Revenues, Expenses, and Changes in Net Position present operating and nonoperating revenues and expenses. In 2022, there was a decrease in contribution revenues of $4.9 million. In 2021, there was an increase in contribution revenues of $3.4 million. The Foundation's disbursements to UCSC decreased by $2.1 million in 2022 from $25.8 million in 2021 to $23.7 million in 2022, due primarily to a decrease in the amount of current gifts transferred to campus.

Nonoperating income (revenues and expenses) includes net investment income, changes in the fair value of investments, and other nonoperating activities. Net nonoperating income decreased $51.1 million to ($11.9 million) in 2022 down from $39.2 million in 2021. The decrease is primarily due to decreased unrealized gains on investments from $35.7 million in 2021 to ($15.9 million) in 2022.

Additions to permanent endowments were $7.9 million in 2022, compared to $5.5 million in 2021.

Net Position

Between 2021 and 2022, the net position decreased $11.7 million from $166.5 million to $154.8 million. Between 2020 and 2021, the net position had increased by $39.8 million. The 2022 decrease is primarily due to a decrease in the fair value of investments.

Investments

Total investments include shares of the GEP and funds held by Bank of New York Mellon (BNY Mellon) and other investment assets that represent third party irrevocable split interest agreements where the Foundation is a beneficiary, and totaled $147.7 million at June 30, 2022 and $158.1 million at June 30, 2021. This represents a decrease in 2022 of $10.4 million from the prior year. The June 30, 2021 amount of $158.1 million represents a $40.8 million increase over the June 30, 2020 balance.

A substantial portion of the Foundation assets are invested in the GEP. GEP, and therefore the Foundation, invests in developed and emerging market equities, domestic and foreign fixed income securities, marketable alternatives, private equity/venture capital partnerships, real estate, natural resources, and commodities. The June 30, 2022 fair value of the Foundation's investment in the GEP was $146.3 million. The June 30, 2021 fair value of the Foundation's investment in the GEP was $156.3 million. In 2020, the fair market value was $115.8 million. The Foundation's investment in the GEP decreased $10.4 million between 2021 and 2022 and increased $40.8 million between 2020 and 2021. An Investment Policy Statement revised annually by the UC Regents and adopted by the Foundation's Board of Trustees, sets policy long-term risk and performance targets and investment asset allocations for the GEP.

Life income (charitable remainder trust, or CRT) assets are invested by BNY Mellon in fixed income, equities, real estate, commodities, and cash, totaling $1.1 million as of June 30, 2022 and $1.4 million as of June 30, 2021.

The Foundation's short-term cash-equivalent funds are invested in the UC Regents Short Term Investment Pool (STIP) that comprise of a broad spectrum of money market and fixed income instruments (domestic and foreign). The STIP is dollar-denominated so the unit price is fixed at $1, and fair market value changes if any, are adjusted through the Pool's current income yields (the STIP rate). The asset mix for STIP consists of commercial paper, federal agency and government securities, corporate notes, and bank notes (certificates of deposits and repurchase agreements). The objective for STIP is to maximize returns consistent with safety of principal, liquidity, and cash flow requirements. The Foundation's cash-equivalent funds held in the Regents STIP were $1.1 million as of June 30, 2022 and $1.8 million as of June 30, 2021.

Endowment Payout

The Foundation's payout policy is 4.75% of a three-year moving average market value of the endowment principal at December 31st. The endowment expenditure formula is reviewed annually. The Foundation Board of Trustees approved a payout rate of 4.75% for fiscal years 2022 and 2021. The rates resulted in payouts of $4.4 million and $4.2 million in 2022 and 2021 respectively. The payouts were distributed to UCSC departments in August of the following fiscal year. As mentioned above in the Financial Highlights, the Board authorized an additional 2.1% payout to endowed scholarships and fellowships to recognize the extraordinary returns on investments in FY21.

Disbursements to UCSC

Total disbursements to UCSC comprise of Gifts to UCSC for current use and capital projects, which were received and transferred by the Foundation, GEP payouts and related withdrawals, and other fees paid for UCSC and reimbursements.

	2022	2021	2020
Gifts for current use and capital projects	$ 17,521,335	$ 20,534,245	$ 16,837,130
Endowment payouts and withdrawals	6,205,069	5,278,373	4,345,602
Other	—	—	—
Total disbursements to UCSC	$ 23,726,404	$ 25,812,618	$ 21,182,732

U.C. SANTA CRUZ FOUNDATION

Statements of Net Position

Years ended June 30, 2022 and 2021

Assets		**2022**		**2021**
Current assets:				
Cash and cash equivalents	$	1,160,509	$	2,132,600
Pledges receivable, net – current		2,028,384		2,014,875
Current assets		3,188,893		4,147,475
Noncurrent assets:				
Investments – General Endowment Pool		146,269,822		156,283,676
Investments – other		1,407,607		1,780,217
Pledges receivable, net – noncurrent		6,730,883		7,601,601
Noncurrent assets		154,408,312		165,665,494
Total assets	$	157,597,205	$	169,812,969
Liabilities				
Current liabilities:				
Accounts payable and other accrued liabilities	$	1,127,938	$	1,290,882
Trust liabilities		87,648		153,477
Current liabilities		1,215,586		1,444,359
Noncurrent liabilities:				
Long-term debt		247,620		247,620
Trust liabilities		511,390		637,058
Noncurrent liabilities		759,010		884,678
Total liabilities	$	1,974,596	$	2,329,037
Deferred Inflows from Irrevocable Split Interest Agreements	$	808,148	$	989,682
Net Position				
Restricted:				
Nonexpendable:				
Endowments	$	64,665,296	$	57,483,380
Expendable:				
Endowments		49,230,779		63,502,506
Funds functioning as endowments		31,572,447		34,711,154
Gifts		8,530,793		9,874,479
Total expendable		89,334,019		108,088,139
Total restricted		153,999,315		165,571,519
Unrestricted		815,146		922,731
Total net position	$	154,814,461	$	166,494,249

See accompanying notes to financial statements.

U.C. SANTA CRUZ FOUNDATION

Statement of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2022 and 2021

		2022		2021
Operating revenues:				
Contributions revenue	$	16,094,457	$	20,958,215
Total operating revenues		16,094,457		20,958,215
Operating expenses:				
Disbursements to University of California, Santa Cruz		23,726,404		25,812,618
Management and general expenses		9,245		8,968
Total operating expenses		23,735,649		25,821,586
Net operating income (loss)		(7,641,192)		(4,863,371)
Nonoperating revenues (expenses):				
Investment income, net		485,633		854,620
Change in fair value of investments		(12,431,332)		38,312,128
Total nonoperating revenues, net		(11,945,699)		39,166,748
Income before other changes in net position		(19,586,891)		34,303,377
Other changes in net position:				
Additions to permanent endowments		7,907,102		5,471,565
Change in net position		(11,679,789)		39,774,942
Net position:				
Beginning of year		166,494,250		126,719,308
End of year	$	154,814,461	$	166,494,250

See accompanying notes to financial statements.

U.C. SANTA CRUZ FOUNDATION

Statements of Cash Flows

Years ended June 30, 2022 and 2021

		2022		2021
Cash flows from operating activities:				
Receipts from contributions	$	16,764,614	$	21,146,929
Payments to the University of California Santa Cruz		(23,889,347)		(26,551,317)
Payments for administrative or operating expenses		(9,245)		(8,968)
Net cash used in operating activities		(7,133,978)		(5,413,356)
Cash flows provided by noncapital financing activities:				
Private gifts for permanent endowments		7,652,484		5,427,218
Cash flows from investing activities:				
Proceeds from sale and maturities of investments		6,759,511		5,745,716
Investment income, net		485,633		854,620
Purchases of investments		(8,735,743)		(7,236,678)
Net cash used in investing activities		(1,490,599)		(636,342)
Net increase (decrease) in cash and cash equivalents		(972,093)		(622,480)
Cash and cash equivalents – beginning of year		2,132,602		2,755,082
Cash and cash equivalents – end of year	$	1,160,509	$	2,132,602
Reconciliation of net operating income (loss) to net cash used in operating activities:				
Net operating income (loss)	$	(7,641,192)	$	(4,863,371)
Adjustments to reconcile net operating income (loss) to net cash used in operating activities:				
Contributions of securities		(327,868)		(659,539)
Changes in value of annuity and life income liabilities		140,816		-
Change in operating assets and liabilities:				
Pledges receivable		857,210		848,253
Accounts payable and other accrued liabilities		(162,944)		(738,699)
Net cash used in operating activities	$	(7,133,978)	$	(5,413,356)
Supplemental noncash activities:				
Contributions of securities – operating	$	327,868	$	659,539
Contribution of securities – endowment		153,991		116,146

See accompanying notes to financial statements.

(1) Organization

The U.C. Santa Cruz Foundation (UCSCF or the Foundation) is a not-for-profit organization dedicated to providing to the University of California, Santa Cruz (UCSC or the University) the financial benefits generated from its fundraising efforts and investment earnings.

The Foundation is subject to the policies and procedures of the Regents of the University of California (the Regents). The Regents established administrative guidelines for the Foundation with regard to the Foundation's ability to conduct operations through its Policy on Campus Foundations. The Regents' policy limits the ability of the Foundation to make certain expenditures and provides a general framework for its operations. The Foundation is governed by a Board of Trustees, the membership of which includes the Chancellor of UCSC. The Foundation was established solely to support the mission of UCSC. The Foundation is a component unit of the University of California. Accordingly, its financial statements are included in the financial statements of the University of California. Upon dissolution, liquidation, or winding up of the Foundation, the assets remaining after payment, or provision for payment, of all debts and liabilities of the Foundation shall be distributed to the Regents for the benefit of UCSC, provided the Regents of the University have maintained tax-exempt status under the Internal Revenue Code and relevant California laws. Accordingly, the Foundation is considered a governmental not-for-profit organization, subject to reporting under the Governmental Accounting Standards Board (the GASB).

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce and financial markets globally, in the United States and in the State. Given the difficulty in predicting the duration and severity of the coronavirus on the economy and the financial markets, the ultimate impact to the Foundation in 2022 and potentially beyond is uncertain.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Accounting

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles, including all applicable statements of the GASB. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. All intercompany balances and transactions have been eliminated.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and investments in the Regents Short Term Investment Pool (STIP), since such amounts are readily convertible to known amounts of cash. All cash and cash equivalents are reported at cost, which approximates fair value.

(c) Investments

Investments are reported at fair value. Investments consist principally of investments in the UC Office of the Chief Investment Officer's General Endowment Pool (GEP), the Charitable Remainder Trust (CRT) investments held by Bank of New York Mellon (BNY Mellon) and beneficial interests in irrevocable split-interest agreements administered by third parties. Realized gains and losses on the sale of marketable securities are determined using the average cost of the securities sold at GEP. Investment income consists of dividend and interest income and is shown net of investment management fees.

Because certain investments are not readily marketable, the estimated fair value may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

The change in the fair value of investments represents the difference between the fair value of investments at the beginning of the year and the end of the year, taking into consideration investment purchases, sales, and redemptions.

Trust assets are invested in a diversified portfolio of institutional quality, exchange-traded index funds, and are recorded at the readily determinable sales price or current exchange rate of the underlying investments based on prices or quotations from over-the-counter markets as all underlying investments have readily available prices at fiscal year-end.

(d) Pledges Receivable

Pledges receivable represent written unconditional promises to give by donors. Pledges receivable, other than endowment pledges, are recognized as contribution revenue at the time the pledge is made by the donor if the pledge is verifiable, measurable, probable of collection, and meets all applicable eligibility requirements. These eligibility requirements require 1) the Foundation to be stated as the recipient of the pledge; 2) the pledge is considered available for use and can be sold, disbursed, consumed, or invested for a term or in perpetuity; 3) any contingencies on the pledge are met; and 4) if a reimbursement of expenses, allowable costs have been incurred. Endowment pledges are recognized as additions to the endowment at the time payment is received. Contributions that are expected to be collected during the next fiscal year are recorded at estimated net realizable value. Contributions recognized during the years ended June 30, 2022 and 2021, which are expected to be collected after one year have been discounted at .38% for 2022 and .79% for 2021 and are reflected in the financial statements at their net present value.

Management has established an allowance for uncollectible contributions, which represents 1.25% of the pledge balance as of June 30, 2022 and 1.20% as of June 30, 2021, plus scheduled pledge payments in arrears.

Endowment pledges receivable are conditional upon the Foundation's preserving the endowment and are therefore recognized as revenue in the period payment is received rather than the period pledged. Conditional endowment pledges receivable approximated $2.2 million at June 30, 2022 and $493 thousand at June 30, 2021.

(e) Trust Liabilities

The Foundation has been designated as the trustee for six charitable remainder trusts (the Trusts, or CRTs) as of June 30, 2022. The Trusts are established by donors to provide income to designated beneficiaries. Upon maturity, any remaining principal of the Trusts will be distributed to the Foundation for use as designated by the donor. Trust assets are recorded at fair value at date of receipt.

A corresponding liability, trust liabilities, is established for the present value of the future estimated payments for life income amounts payable, calculated on the basis of standard gift annuity tables and applicable Internal Revenue Service guidelines. The remaining amount is classified as deferred inflows from irrevocable split interest agreements.

As of June 30, 2022 and 2021, liabilities for trust payments to beneficiaries are discounted based on the risk-free discount rate as of the date of the gifts, which ranged from 2.9% to 6.0%.

(f) Classification of Current and Noncurrent Assets and Liabilities

The Foundation considers assets to be current that can reasonably be expected, as part of normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the Statement of Net Position date. Liabilities that reasonably can be expected, as part of normal business operations, to be liquidated within 12 months of the Statements of Net Position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

(g) Deferred Inflows from Irrevocable Split Interest Agreements

Deferred inflows from irrevocable split interest agreements represent an acquisition of net position that apply to a future period. The Foundation classifies changes in irrevocable split interest agreements as deferred inflows. These amounts will be recognized as revenue at the termination of the split-interest agreements.

(h) Net Position

Net position includes the following:

Restricted nonexpendable net position consists of permanent endowments and life income funds, which will become permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing investment income and appreciation that may be expended or added to principal in accordance with donors' wishes, subject to Foundation expenditure policy. The Foundation classifies the original endowment gift and any amounts added to principal per the donor's wishes as restricted nonexpendable net position. In addition, any net loss in the permanent endowment fair values from the historic gift values is classified as a reduction in restricted nonexpendable net position.

Restricted expendable net position relates to contributions designated by donors for use by particular entities or programs or for specific purposes or functions of the UCSC. They also include funds functioning as endowments, which are restricted net position, which can be expended. Investment income and appreciation of endowment investments are classified as restricted expendable net position unless otherwise specified by the donor.

When the Foundation receives amounts that are for both restricted and unrestricted purposes, it is the Foundation's policy to first apply the amounts to restricted purposes.

Unrestricted net position is net position of the Foundation that is not subject to donor-imposed restrictions.

(i) Classification of Revenues and Expenses

Operating revenues and expenses are distinguished from nonoperating items and generally result from providing services in connection with ongoing operations and stewarding of current funds. The principal operating revenues are derived from gifts and other fund-raising activities. Operating expenses include distributions to the University and administrative expenses.

Nonoperating revenues and expenses include investment income, interest and dividends, the change in fair value of investments, which consists of the net realized gain (loss) on the sale of investments and change in unrealized appreciation (depreciation) in the fair value of investments, change in classification of permanent endowed assets and debt relief.

Gifts for permanent endowment purposes are classified as other changes in net position.

(j) Gift Fees

In accordance with policies established by the UCSC Chancellor to offset costs incurred in the management, administration, and processing of gifts, gift fees are assessed. Upon receipt, 6% of gifts are remitted to UCSC and recorded on the accompanying financial statements as disbursements to campus.

(k) Disbursements and Expenses

Disbursements and expenses consist primarily of payments made to the University in support of University programs and departments.

(l) Accounts Payable and Other Accrued Liabilities

The Foundation transfers gifts for current use to UCSC departments on a monthly basis, as receipts are identified and designated for uses according to donors' intended purposes. As of June 30, 2022 the current gift amount to be transferred in July 2022 of $1.1 million was recorded in disbursements to University of California, Santa Cruz in the Statement of Revenues, Expenses, and Changes in Net Position and as accounts payable and other accrued liabilities in the Statements of Net Position. At June 30, 2021 the corresponding amount subsequently transferred in July 2021 was $1.3 million.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Taxes

The Foundation is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which it is granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

(3) Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2022 and 2021 consist of the following:

	2022	2021
Checking and savings accounts	$ 33,094	$ 341,671
UC Short-Term Investment Pool	1,127,415	1,790,930
	$ 1,160,509	$ 2,132,601

At June 30, 2022 and 2021, the carrying amount of the Foundation's demand deposits was $33,094 and $341,671, respectively.

The Foundation manages its cash through a major banking institution. Bank balances are fully insured by the Federal Deposit Insurance Corporation up to the applicable limits. The UC Chief Investment Officer's Short Term Investment Pool (STIP) invests primarily in U.S. Treasury securities, prime grade commercial paper, and short-term corporate notes with cost approximating fair value. The Foundation earns income based on its average investment in the pool. The Foundation does not have exposure to foreign currency risk in its demand deposit accounts.

The Foundation is cognizant that cash balances are exposed to custodial credit risk. To mitigate custodial credit risk, the Foundation conducts business with a bank with national recognition.

(4) Investments

The composition of the Foundation's investments including its proportionate share of the GEP as of June 30, 2022 and 2021 is as follows (in thousands of dollars):

Investment type	2022	Percentage	2021	Percentage
Commingled funds:				
Balanced funds	$ 146,270	99.2%	$ 156,284	99.0%
U.S. equity funds	525	0.4	698	0.4
Non-U.S. equity funds	146	0.1	195	0.1
U.S. bond funds	430	0.3	533	0.3
Short-term investments	8	—	10	—
Commingled funds	147,379		157,720	
Other investments	298	—	344	0.2
	$ 147,677	100%	$ 158,064	100%

The GEP's indexed securities represent U.S. and foreign equities, high-yield U.S. equities, U.S. and foreign bonds, and real estate. The equity securities include common stocks, alternative investments (private equity and venture capital partnerships; and absolute return investments), emerging market indexed funds, and real estate. Each individual fund within the GEP subscribes to or disposes of units on the basis of the fair value per unit at the end of the month in which the transaction takes place.

The basis of determining the fair value of the underlying investments held by the GEP is the readily determinable sales price or current exchange rate of the investments based on prices or quotations from over-the-counter markets where such markets exist. The fair value of interests in alternative investments is based upon valuations provided by the general partners and fund managers. As alternative investments are not readily marketable, their estimated fair 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. The basis of determining the fair value of the underlying investments held in the CRT pools at BNY Mellon is the readily determinable sales price or current exchange rate of the underlying investments based on prices or quotations from over-the-counter markets as all underlying investments have readily available prices at year-end.

As noted above, the Foundation holds units in the GEP, equities, fixed income and other CRT investments. The CRT investments held by BNY Mellon are maintained to approximate the investment composition of the GEP, except the CRT investments do not include alternative investments and real estate. Other investments include beneficial interests from irrevocable split interest agreements administered by third parties.

The Foundation adopted the provisions contained in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in management of its endowment and similar funds. UPMIFA eliminates the concept of 'historic dollar value' and states that "the institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established." Under this approach, during fiscal years 2022 and 2021, the Foundation approved an endowment payout of 4.75% of the three-year moving average fair values of the endowment as of December 31, 2020 and 2019, with 0.55% of that used to recover noninvestment-related endowment administration costs. Endowment cost recovery fees remitted to UCSC are recorded with the endowment payout on the accompanying financial statements as disbursements to University of California, Santa Cruz.

(5) Fair Value Measurements

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities and other exchange traded securities.

Level 2 – Quoted prices in the markets that are not considered to be active, dealer quotations, or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly are classified as Level 2. Level 2 investments include fixed- or variable-income securities and commingled funds that are valued using market information.

Investments and other assets classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments and other assets are based upon the best information in the circumstance and may require significant management judgment. Level 3 financial instruments include private equity investments, real estate and beneficial interests in irrevocable split-interest agreements.

Net Asset Value (NAV) – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV. Investments measured at NAV include commingled GEP funds.

Not Leveled – Cash and cash equivalents are not measured at fair value and, thus, are not subject to the fair value disclosure requirements.

The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2022 (in thousands of dollars):

		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Commingled funds	$	$671	$430		$146,270
Short-term investments		8			
Total investments	$	$679	$430	-	$146,270
Beneficial interests in irrevocable split-interest agreements included in investments-other	$			$298	

The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2021 (in thousands of dollars):

		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Commingled funds	$	$893	$533		$156,284
Short-Term Investments		10			
Total investments	$	$903	$533	-	$156,284

(6) Investment Risk Factors

There are many factors that can affect the value of investments. In addition to market risk, credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities are affected by such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risk, inflation, and changes in interest rates.

The Foundation's targeted investment risk level is be consistent with the UC Regents approved pro forma total investment risk level, and will be in compliance with the GEP's risk level.

The UC Regents Chief Investment Officer is responsible for managing GEP total and active risk and implements procedures and safeguards so that the combined risk exposures of all portfolios in the aggregate are kept within limits established by the Regents Committee on Investments. Further, within limits of prudent diversification and risk budgets, the GEP total and active risk exposures are fungible, that is the Chief

Investment Officer may allocate risk exposures within and between asset classes in order to optimize investment return.

(a) Credit Risk

Fixed income securities are subject to credit risk, which is the risk 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 the security price to decline. The circumstances may arise due to a variety of factors, such as financial weakness or bankruptcy. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have little credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, such as Moody's Investors Service or Standard and Poor's. In the rating agency's opinion, the lower the rating, the greater the chance that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher the yield to compensate for the additional risk. Credit agencies' opinions, and therefore, ratings can change as market conditions change.

The Foundation recognizes that a limited amount of credit risk, properly managed and monitored, is prudent and provides an incremental risk adjusted return above the relevant benchmark.

The credit risk profile for fixed income securities at June 30, 2022 and 2021 is as follows (in thousands of dollars):

	2022	2021
Commingled funds:		
U.S. bond funds:		
Not rated	$ 438	$ 543
Total commingled funds	$ 438	$ 543

(b) Custodial Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the Foundation's investment may not be returned. A majority of marketable securities held by the Foundation are in investment pools (GEP and BNY Mellon), in which their existence is not evidenced by securities that exist in physical or book entry form. As a result, custodial risk is considered remote.

(c) Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of investments with the University of California Chief Investment Officer's Office, which may invest in cash equivalents, U.S. Government and federal agency obligations, common stocks, and corporate debt securities; the remainder of the UC Chief Investment Officer's portfolio is diversified and issuers of the securities are dispersed throughout many industries and geographies. The Foundation does not directly hold nor does it intend to purchase any of the more volatile types of derivative mortgage securities.

(d) Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline with rising interest rates. The market prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations.

The effective duration (in years) of the Foundation's fixed income securities at June 30, 2022 and 2021 is as follows:

	2022	2021
Fixed income securities:		
Commingled funds – U.S. bond funds	2.71	2.58
Commingled funds – short-term investments	0.02	0.13

(e) Foreign Currency Risk

Exposure from foreign currency risk results from investments in foreign currency denominated equity or fixed income securities.

At June 30, 2022 and 2021, the U.S. dollar balances of Foundation investments that carry foreign currency risk type are as follows (in thousands of dollars):

	2022	2021
Commingled funds:		
Various currency denominations:		
Non-U.S. equity	$ 146	$ 195
Total	$ 146	$ 195

(7) Related Parties

The Foundation supports the University and has the following organizational relationship with the University:

Administrative Costs

The Foundation has a Board of Trustees and designated officers; however, the Foundation does not have any employees. All functions and activities are conducted by employees of the University. The University employees serving Foundation functions are covered by the Regents pension plan and postretirement health care plan. All of the Foundation's office space is provided by the University.

Further, gift fees are levied by UCSC and distributed by the Foundation along with the gifts to UCSC for campus administrative costs, described above in accordance with relevant University policies. Gift fees and other reimbursements are included in disbursements to UCSC in the accompanying financial statements and totaled $1.6 million for the year ended June 30, 2022 and $1.7 million for the year ended June 30, 2021.

(8) Pledges Receivable

Promises to give, net of discount to present value and allowance for doubtful pledges, as of June 30, 2022 and 2021 are as follows (in thousands of dollars):

Pledges receivable, current		2,029		2,015
Pledges due between one and five years		4,768		5,481
Pledges due between six and ten years		2,231		2,686
Less:				
Allowance for doubtful pledges		(88)		(96)
Unamortized discount		(181)		(470)
Pledges receivable, noncurrent		6,730		7,601
Total pledges receivable, net	$	8,759	$	9,616

Approximately, $7.7 of the gross pledges receivable as of June 30, 2022 were due from one foundation and three individuals. Approximately $8.9 million of the gross pledges receivable as of June 30, 2021 were due from two foundations. Of the $9.2 million and $10.2 million gross pledges receivable as of June 30, 2022 and June 30, 2021, approximately $7.3 million and $8.7 million, respectively, were due from members of the Foundation Board of Trustees.

(9) Long-Term Debt

Long term debt consists of amounts payable to UCSC is $248 thousand as of June 30, 2022 and 2021, and is due in 2026. The original loan agreement indicated that the loan was to be repaid in full upon maturation of four Foundation held trust assets. On June 30, 2022, there was one remaining trust with $290 thousand in assets, $84 thousand in trust liabilities, and $206 thousand in deferred inflows. UCSC has agreed to receive the future proceeds of the trust as final payment.

The loan is classified as a noncurrent liability since the University has informed the Foundation it will not seek payment before the maturation of the trust.

(10) Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 13, 2022, the date the financial statements were available to be issued.