

U.C. SANTA CRUZ FOUNDATION

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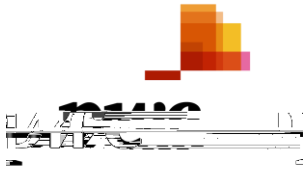
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Report of



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

We have audited the accompanying financial statements of the University of California, Santa Cruz Foundation ("Foundation"), a component unit of the University of California, which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended.



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 standards of

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Management's Discussion and Analysis

Years ended June 30, 2020 and 2019

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, 2020 and 2019. 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 2020 and 2019, the Foundation improved its financial condition as indicated by an increase in net position by \$5.5 million and \$13.8 million, respectively.

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 (nonendowed) 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 Change~ is \$ con\$

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Management's Discussion and Analysis

Years ended June 30, 2020 and 2019

Condensed Financial Information

	June 30		
	2020	2019	2018
Assets:			
Cash and cash equivalents	\$ 2,755,082	\$ 1,051,661	\$ 905,584
Pledges receivable, net	10,464,729	10,101,303	3,081,036
Investments	117,292,264	112,920,127	106,270,563
Total assets	\$ 130,512,075	\$ 124,073,091	\$ 110,257,183
Liabilities:			
Current liabilities	2,157,542	1,006,974	937,445
Noncurrent liabilities	790,307	816,485	825,332
Total liabilities	\$ 2,947,849	\$ 1,823,459	\$ 1,762,777
Deferred Inflows from Irrevocable Split interest Agreements	\$ 844,918	1,052,032	1,082,985
Net position:			
Restricted			
Nonexpendable	52,007,285	48,355,292	46,283,857
Expendable	74,013,840	72,021,632	60,422,508
Unrestricted	698,181	820,676	705,056
Total net position	\$ 126,719,306	\$ 121,197,600	\$ 107,411,421
Revenues and expenses:			
Operating revenues	\$ 17,590,399	\$ 16,153,247	\$ 16,265,620
Operating expenses:	21,242,014	12,825,050	19,328,566
Net operating income (loss)	(3,651,615)	3,328,197	(3,062,946)
Nonoperating income	5,516,798	8,386,547	8,691,180
Additions to permanent endowments	3,656,523	2,071,435	2,459,960
Change in net position	5,521,706	13,786,179	8,088,194
Net position:			
Beginning of year	121,197,600	107,411,421	99,323,227
End of year	\$ 126,719,306	\$ 121,197,600	\$ 107,411,421

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Management's Discussion and Analysis

Years ended June 30, 2020 and 2019

Operating and Nonoperating Revenues and Expenses

The Statements of Revenues, Expenses, and Changes in Net Position present operating and nonoperating revenues and expenses. In 2020, there was an increase in contributions revenues of \$1.4 million. In 2019, there was a decrease in contributions revenues of \$112 thousand. The Found

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Statements of Net Position

June 30, 2020 and 2019

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 2,755,082	\$ 1,051,661
Pledges receivable, net – current	2,310,607	1,977,010
Current assets	5,065,689	3,028,671
Noncurrent assets:		
Investments – General Endowment Pool	115,781,230	111,165,380
Investments – other	1,511,034	1,754,747
Pledges receivable, net – noncurrent	8,154,122	8,124,293
Noncurrent assets	125,446,386	121,044,420
Total assets	\$ 130,512,075	\$ 124,073,091
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 2,029,582	\$ 873,124
Trust liabilities	127,960	133,850
Current liabilities	2,157,542	1,006,974
Noncurrent liabilities:		
Long-term debt	247,620	247,620
Trust liabilities	542,687	568,865
Noncurrent liabilities	790,307	816,485
Total liabilities	\$ 2,947,849	\$ 1,823,459
	\$ 844,918	\$ 1,052,032
Net Position		
Restricted:		
Nonexpendable:		
Endowments	\$ 52,007,285	\$ 48,300,750

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Statement of Revenues, Expenses and Net Position

Years ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Contributions revenue	\$ 17,590,399	\$ 16,153,247
Total operating revenues	17,590,399	16,153,247
Operating expenses:		
Disbursements to University of California, Santa Cruz	21,182,732	12,817,886
Management and general expenses	59,282	7,164
Total operating expenses	21,242,014	12,825,050
Net operating income (loss)	(3,651,615)	3,328,197
Nonoperating revenues (expenses):		
Investment income, net	530,703	623,478
Change in fair value of investments	4,986,096	7,826,595
Other nonoperating income (expenses)	-	(63,526)
Total nonoperating revenues, net	5,516,799	8,386,547
Income before other changes in net position	1,865,183	11,714,744

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Statements of Cash Flows

Years ended June 30, 2020 and 2019

	<u>2020</u>		<u>2019</u>
Cash flows from operating activities:			
Receipts from contributions	\$ 16,591,736	\$	8,821,949
Payments to the University of California Santa Cruz	(20,026,274)		(12,750,274)
Payments for administrative or operating expenses	<u>(59,282)</u>		<u>(7,164)</u>
Net cash used in operating activities	<u>(3,493,820)</u>		<u>(3,935,489)</u>
Cash flows provided by noncapital financing activities:			
Private gifts for permanent endowments	<u>3,561,117</u>		<u>1,708,218</u>
Cash flows from investing activities:			
Proceeds from sale and maturities of investments	5,472,259		4,853,021
Investment income, net	530,703		623,478
Purchases of investments	<u>(4,366,838)</u>		<u>(3,103,151)</u>
Net cash provided by investing activities	<u>1,636,124</u>		<u>2,373,348</u>
Net increase (decrease) in cash and cash equivalents	1,703,421		146,077
Cash and cash equivalents – beginning of year	<u>1,051,661</u>		<u>905,584</u>
Cash and cash equivalents – end of year	\$ <u><u>2,755,082</u></u>	\$	\$ <u><u>1,051,661</u></u>
Reconciliation of net operating income (loss) to net cash used in operating activities:			
Net operating income (loss)	\$ (3,651,615)	\$	3,328,197
Adjustments to reconcile net operating income (loss) to net cash used in operating activities:			
Contributions of securities	(390,376)		(311,031)
Change in operating assets and liabilities:			
Pledges receivable	(608,287)		(7,020,267)
Accounts payable and other accrued liabilities	<u>1,156,458</u>		<u>67,612</u>
Net cash used in operating activities	\$ <u><u>(3,493,820)</u></u>	\$	\$ <u><u>(3,935,489)</u></u>
Supplemental noncash activities:			
Contributions of securities – operating	\$ 390,376	\$	311,031
Contribution of securities – endowment	95,736		305,360

See accompanying notes to financial statements.

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Notes to Financial Statements

Years ended June 30, 2020 and 2019

(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

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Years ended June 30, 2020 and 2019

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 \$970 thousand at June 30, 2020 and \$630 thousand at June 30, 2019.

(e) *Trust Liabilities*

The Foundation has been designated as the trustee for seven charitable remainder trusts (the Trusts, or CRTs) as of June 30, 2020. One trust was terminated during fiscal year 2020. 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, 2020 and 2019, 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*

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Notes to Financial Statements

Years ended June 30, 2020 and 2019

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

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Notes to Financial Statements

Years ended June 30, 2020 and 2019

(m) Use of Estimates

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Years ended June 30, 2020 and 2019

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Years ended June 30, 2020 and 2019

of the endowment as of December 31, 2018 and 2017, 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.

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Notes to Financial Statements

Years ended June 30, 2020 and 2019

(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

