

U.C. SANTA CRUZ FOUNDATION
Financial Statements
Years ended June 30, 2021 and 2020

U.C. SANTA CRUZ FOUNDATION
Management's Discussion and Analysis (Unaudited)
Years ended June 30, 2021 and 2020

Condensed Financial Information

Assets:

Cash and cash equivalents	\$ 2,132,602	\$ 2,755,082	\$ 1,051,661
Pledges receivable, net	9,616,476	10,464,729	10,101,303
Investments	158,063,893	117,292,264	112,920,127
Total assets	\$ 169,812,971	\$ 130,512,075	\$ 124,073,091

Liabilities:

Current liabilities	1,444,359	2,157,542	1,006,974
Noncurrent liabilities	884,678	790,307	816,485
Total liabilities	\$ 2,329,037	\$ 2,947,849	\$ 1,823,459

	\$ 989,682	844,918	1,052,032
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Net position:

Restricted			
Nonexpendable	57,483,380	52,007,285	48,355,292
Expendable	108,088,139	74,013,840	72,021,632
Unrestricted	922,731	698,181	820,676
Total net position	\$ 166,494,250	\$ 126,719,306	\$ 121,197,600

Revenues and expenses:

Operating revenues	\$ 20,958,215	\$ 17,590,399	\$ 16,153,247
Operating expenses:	25,821,586	21,242,014	12,825,050
Net operating income (loss)	(4,863,371)	(3,651,615)	3,328,197

Nonoperating income	39,166,748	5,516,798	8,386,547
Additions to permanent endowments	5,471,567	3,656,523	2,071,431

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Operating and Nonoperating Revenues and Expenses

The Statements of Revenues, Expenses, and Changes in Net Position present operating and nonoperating revenues and expenses. In 2021, there was an increase in contributions revenues of \$3.4 million. In 2020, there was an increase in contributions revenues of \$1.4 million. The Foundation's disbursements to UCSC increased by \$6 million in 2021, from \$1.2 million in 2020.

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corporate notes, and bank notes (certificates of deposits and repurchase agreements).

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Statements of Net Position

June 30, 2021 and 2020

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 2,132,602	\$ 2,755,082
Pledges receivable, net – current	2,014,875	2,310,607
Current assets	4,147,477	5,065,689
Noncurrent assets:		
Investments – General Endowment Pool	156,283,676	115,781,230
Investments – other	1,780,217	1,511,034
Pledges receivable, net – noncurrent	7,601,601	8,154,122
Noncurrent assets	165,665,494	125,446,386
Total assets	\$ 169,812,971	\$ 130,512,075
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 1,290,882	\$ 2,029,582
Trust liabilities	153,477	127,960
Current liabilities	1,444,359	2,157,542
Noncurrent liabilities:		
Long-term debt	247,620	247,620
Trust liabilities	637,058	542,687
Noncurrent liabilities	884,678	790,307
Total liabilities	\$ 2,329,037	\$ 2,947,849
Deferred Inflows from Irrevocable Split Interest Agreements	\$ 989,682	\$ 844,918
Net Position		
Restricted:		
Nonexpendable:		
Endowments	\$ 57,483,380	\$ 52,007,285
Expendable:		
Endowments	63,502,506	36,988,810
Funds functioning as endowments	34,711,154	26,649,136
Gifts	9,874,479	10,375,894
Total expendable	108,088,139	74,013,840
Total restricted	165,571,519	126,021,125
Unrestricted	922,731	698,181
Total net position	\$ 166,494,250	\$ 126,719,306

See accompanying notes to financial statements.

U.C. SANTA CRUZ FOUNDATION
Statement of Revenues, Expenses and Net Position
Years ended June 30, 2021 and 2020

	2021	2020
Operating revenues:		
Contributions revenue	\$ 20,958,215	\$ 17,590,399
Total operating revenues	20,958,215	17,590,399
Operating expenses:		
Disbursements to University of California, Santa Cruz	25,812,618	21,182,732
Management and general expenses	8,968	59,282
Total operating expenses	25,821,586	21,242,014
Net operating income (loss)	(4,863,371)	(3,651,615)
Nonoperating revenues (expenses):		
Investment income, net	854,620	530,703
Change in fair value of investments	38,312,128	4,986,096
Total nonoperating revenues, net	39,166,748	5,516,799
Income before other changes in net position	34,303,377	1,865,183
Other changes in net position:		
Additions to permanent endowments	5,471,567	3,656,523
Change in net position	39,774,944	5,521,706
Net position:		
Beginning of year	126,719,306	121,197,600
End of year	\$ 166,494,250	\$ 126,719,306

See accompanying notes to financial statements.

U.C. SANTA CRUZ FOUNDATION

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Receipts from contributions	\$ 21,146,929	\$ 16,591,736
Payments to the University of California Santa Cruz	(26,551,317)	(20,026,274)
Payments for administrative or operating expenses	<u>(8,968)</u>	<u>(59,282)</u>
Net cash used in operating activities	<u>(5,413,356)</u>	<u>(3,493,820)</u>
Cash flows provided by noncapital financing activities:		
Private gifts for permanent endowments	<u>5,427,218</u>	<u>3,561,117</u>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	5,745,716	5,472,259
Investment income, net	854,620	530,703
Purchases of investments	<u>(7,236,678)</u>	<u>(4,366,838)</u>
Net cash (Used in) provided by investing activities	<u>(636,342)</u>	<u>1,636,124</u>
Net increase (decrease) in cash and cash equivalents	(622,480)	1,703,421
Cash and cash equivalents – beginning of year	<u>2,755,082</u>	<u>1,051,661</u>
Cash and cash equivalents – end of year	\$ <u><u>2,132,602</u></u>	\$ <u><u>2,755,082</u></u>
Reconciliation of net operating income (loss) to net cash used in operating activities:		
Net operating income (loss)	\$ (4,863,371)	\$ (3,651,615)
Adjustments to reconcile net operating income (loss) to net cash used in operating activities:		
Contributions of securities	(659,539)	(390,376)
Change in operating assets and liabilities:		
Pledges receivable	848,253	(608,287)
Accounts payable and other accrued liabilities	<u>(738,699)</u>	<u>1,156,458</u>
Net cash used in operating activities	\$ <u><u>(5,413,356)</u></u>	\$ <u><u>(3,493,820)</u></u>
Supplemental noncash activities:		
Contributions of securities – operating	\$ 659,538	\$ 390,376
Contribution of securities – endowment	116,146	95,736

See accompanying notes to financial statements.

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Notes to Financial Statements

Years ended June 30, 2021 and 2020

(1) Organization

The U.C. Santa Cruz Foundation (UCSCF or the Foundation) is a nonprofit organization dedicated to providing to the University of California, Santa Cruz (UCSC) 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 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 nonprofit organization, subject to reporting under the Government Accounting Standards Board (GASB).

(2) Summary of Significant Accounting Policies

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Years ended June 30, 2021 and 2020

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

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Notes to Financial Statements

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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 agreement

As of June 30, 2021 and 2020 liabilities for trust payments to beneficiaries are discounted based on the riskfree discount rate as of the date of the gifts, which ranged from 2.9% to 6.0%.

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 o-13.6 (.)9im7 (-13.6 (.)9i6,013 w)4.6 (i)((-4i6,013 w)b6 (o)12.7 (r

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Operating revenues and expenses are distinguished from nonoperating items and generally result from

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Notes to Financial Statements

Years ended

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Notes to Financial Statements

Years ended June 30, 2021 and 2020

The following tables summarize the investments and 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)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Commingled funds	\$ 893	\$533	-	\$156,284
Other investment-commodities	10	-	-	
Total investments	<u>\$ 903</u>	<u>\$533</u>	<u>-</u>	<u>\$156,284</u>

Beneficial interests in irrevocable
split-interest agreements include:
investments-other

	<u>\$ 344</u>
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The Foundation's targeted investment risk level is 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 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.

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will not 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 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, 2021 and 2020 is as follows (in thousands of dollars):

	<u>2021</u>	<u>2020</u>
Commingled funds:		
U.S. bond funds:		
Not rated	\$ 543	\$ 467
Non-U.S. bond funds:		
Not rated	—	—
Total commingled funds	<u>\$ 543</u>	<u>\$ 467</u>

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

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