

UC Riverside Foundation
Financial Statements
June 30, 2022 and 2021

UC Riverside Foundation
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June 30, 2022 and 2021

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Report of Independent Auditors

To the Board of Trustees of the
UC Riverside Foundation

Opinion

We have audited the accompanying financial statements of the UC Riverside 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 the results of its operations and its 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.

Irvine, California
September 23, 2022

UC Riverside Foundation

Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

The following section of the annual financial report of the UC Riverside Foundation (the "Foundation") includes an overview and analysis of the Foundation's financial position and activities for the years ended June 30, 2022 and 2021. This discussion and analysis, as well as the basic financial statements, which it accompanies, are the responsibility of the management of the Foundation.

Introduction to the Basic Financial Statements

This annual report consists of a series of financial statements prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board using the economic resources measurement focus and the accrual basis of accounting. The basic financial statements include statements of net position; statements of revenue, expenses, and changes in net position; and statements of cash flows. Notes to the basic financial statements support these statements. All sections must be considered together to obtain a complete understanding of the financial position and changes in financial position of the Foundation.

Statements of Net Position

The statements of net position include all assets, liabilities, and deferred inflows of resources. Assets and liabilities are categorized as current or noncurrent, as of June 30, 2022 and 2021. These statements also identify major categories of restrictions on the net position of the Foundation. The Foundation's net position (the difference between assets, liabilities, and deferred inflows of resources) is one indicator of the Foundation's financial health, when considered in combination with other nonfinancial information.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenue, expenses, and changes in net position present the revenue earned and expenses incurred by the Foundation during the years ended June 30, 2022 and 2021, on an accrual basis. Revenue and expenses on these statements are classified as operating or nonoperating. Incoming gifts and grants made to the campus are reported as operating revenue and expense, respectively, and investment results are reported as nonoperating income or loss.

Statements of Cash Flows

The statements of cash flows present the changes in the Foundation's cash for the years ended June 30, 2022 and 2021, summarized by operating, noncapital financing, and investing activities. The statements are prepared using the direct method of cash flows and, therefore, present gross rather than net amounts for each year's activities.

Financial Highlights

The following discussion highlights management's understanding of the key financial aspects of the Foundation's financial condition and activities:

During fiscal year 2022, the Foundation's net position, which represents the excess of total assets over liabilities, decreased by \$21.2 million. This is compared to an increase in net position during fiscal year 2021 of \$72.4 million and an increase during fiscal year 2020 of \$15.3 million. The primary factor for the decrease in net position during fiscal year 2022 was due to a decrease in value of long-term investments.

During 2022, overall contributions to the Foundation decreased by \$5.7 million over that of fiscal year 2021. This was due to a decrease in overall contributions. During 2021, overall contributions to the Foundation increased by \$1.2 million over that of fiscal year 2020.

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Nonoperating losses in fiscal year 2022 were \$19.9 million as compared to nonoperating gains of \$65.9 million in 2021 and nonoperating gains of \$9.6 million in 2020. This change was primarily due to the decrease in investment returns.

The Foundation expects fluctuations in contribution revenue, additions to permanent endowments and investment results from year to year. The Foundation manages the endowment portfolio in accordance with established financial, investment, and spending objectives. Significant contributions, including bequests, are periodically received from donors as a result of relationships cultivated over many years. The timing of these contributions is not entirely predictable, and often will correlate with a campus initiative.

Condensed Schedule of Net Position

	June 30		
	2022	2021	2020
Assets			
Current assets	\$ 15,047,960	\$ 14,341,467	\$ 8,487,047
Noncurrent assets	240,589,176	262,820,750	196,175,807
Total assets	<u>\$ 255,637,136</u>	<u>\$277,162,217</u>	<u>\$204,662,854</u>
Liabilities			
Current liabilities	\$ 1,871,656	\$ 2,092,044	\$ 2,081,445
Noncurrent liabilities	139,490	189,680	164,328
Total liabilities	<u>\$ 2,011,146</u>	<u>\$ 2,281,724</u>	<u>\$ 2,245,773</u>
Deferred Inflows of Resources			
Deferred inflows from split-interest agreements	\$ 339,465	\$ 398,151	\$ 326,946
Total deferred inflows of resources	<u>\$ 339,465</u>	<u>\$ 398,151</u>	<u>\$ 326,946</u>
Net Position			
Restricted			
Nonexpendable	\$ 140,336,234	\$134,048,767	\$123,673,274
Expendable	112,868,644	140,337,800	78,299,349
Unrestricted	81,647	95,775	117,512
Total net position	<u>\$ 253,286,525</u>	<u>\$274,482,342</u>	<u>\$202,090,135</u>

Assets

Total current assets increased by \$0.7 million during the fiscal year ended June 30, 2022, and increased \$5.9 million during the year ended June 30, 2021. The increase in current assets during fiscal year 2022 was primarily due to an increase in cash held in cash and cash equivalent accounts. The increase in current assets during fiscal year 2021 was also primarily due to an increase in cash held in cash and cash equivalent accounts.

Total noncurrent assets decreased by \$22.2 million during the fiscal year ended June 30, 2022, and increased by \$66.6 million during fiscal year June 30, 2021. The decrease in noncurrent assets during fiscal year 2022 was primarily attributable to a decrease in value of long-term investments. The increase in noncurrent assets during fiscal year 2021 was primarily attributable to pledges receivable and appreciation of long-term investments.

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Liabilities

Current liabilities represent accrued Foundation administrative expenses, reimbursements due to the University of California, Riverside ("UC Riverside" or "UCR") from the Foundation for expenses, and liabilities to life beneficiaries on trusts in the coming year. The noncurrent liabilities are liabilities to life beneficiaries on trusts beyond one year.

Current liabilities decreased by approximately \$220,000 and noncurrent liabilities decreased by approximately \$50,000 in fiscal year 2022, due to a decrease in liabilities to life beneficiaries and accrued expenses.

Current liabilities increased by approximately \$11,000 and noncurrent liabilities increased by approximately \$25,000 in fiscal year 2021, due to an increase in liabilities to life beneficiaries and accrued expenses.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period. The Foundation classifies changes in irrevocable split-interest agreements as deferred inflows of resources.

Deferred inflows from split-interest agreements decreased by approximately \$59,000 in fiscal year 2022.

Deferred inflows from split-interest agreements increased by approximately \$71,000 in fiscal year 2021.

Restricted Net Position

Net position of the Foundation includes funds that have donor restrictions on their use. Funds may be expendable for a specific purpose, or they may be nonexpendable.

The following table summarizes, which funds are restricted, the type of restriction, and the amount:

Summary of Restricted Net Position

	June 30		
	2022	2021	2020
Nonexpendable			
Endowments	\$140,336,234	\$134,048,767	\$123,673,274
Total nonexpendable	<u>\$140,336,234</u>	<u>\$134,048,767</u>	<u>\$123,673,274</u>
Expendable			
Endowment income and appreciation	\$ 80,817,067	\$107,909,258	\$ 55,119,657
Funds functioning as endowments	15,817,259	17,641,979	14,403,304
Gifts	16,234,318	14,786,563	8,776,388
Total expendable	<u>\$112,868,644</u>	<u>\$140,337,800</u>	<u>\$ 78,299,349</u>

UC Riverside Foundation
Management's Discussion and Analysis (Unaudited)
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Net position decreased by \$21.2 million in fiscal year 2022 and net position increased by \$72.4 million in fiscal year 2021, as reflected below:

Condensed Schedule of Revenue, Expenses, and Changes in Net Position

	June 30		
	2022	2021	2020
Operating revenue	\$ 6,642,398	\$ 9,120,538	\$ 5,370,252
Operating expenses	14,158,030	12,129,101	12,985,803
Operating loss	(7,515,632)	(3,008,563)	(7,615,551)
Nonoperating (loss) income, net	(19,930,850)	65,854,568	9,610,095
Contributions to permanent endowments	6,250,665	9,546,202	13,292,817
Change in net position	(21,195,817)	72,392,207	15,287,361
Net position			
Beginning of year	<u>274,482,342</u>	<u>202,090,135</u>	<u>186,802,774</u>
End of year	<u>\$253,286,525</u>	<u>\$274,482,342</u>	<u>\$202,090,135</u>

Revenue and Expense

Operating revenue from contributions decreased \$2.4 million from fiscal year 2021 to 2022. This decrease was mainly attributed to a \$5.0 million pledge in fiscal year 2021. Contributions to endowments decreased this year compared to fiscal year 2021 by \$3.3 million. This was primarily due to a decrease in outright cash contributions.

Operating expense consists primarily of grants made to UC Riverside of expendable contributions and accumulated endowed payout for the many purposes intended by the donors. The timing of grants to the campus lags the timing of the incoming contribution revenue and endowed payout. In addition, endowed payout is not recognized as operating revenue, but operating expense upon the transfer of payout to the campus. Due to these factors, and similar to fiscal years 2020 and 2021, in fiscal year 2022 grants made to the campus exceeded recognized contribution revenue, resulting in an operating loss.

Nonoperating income decreased by \$85.8 million in comparison with the prior year mainly due to the change in investment performance. The Foundation had net investment income of \$0.7 million and a net decrease in the fair value of investments of \$20.7 million for the year ended June 30, 2022.

Operating revenue from contributions increased \$4.9 million from fiscal year 2020 to 2021. This increase was mainly attributed to a \$5.0 million pledge in fiscal year 2021. Revenue from other operating revenue decreased by \$1.2 million from fiscal year 2020 to 2021. This was mainly attributed to a decrease in return of revenue from campus for the current and prior year. Contributions to endowments decreased in fiscal year 2021 compared to fiscal year 2020 by \$3.7 million. This was primarily due to a decrease in outright cash contributions and gifts of marketable securities.

Nonoperating income increased by \$56.2 million from fiscal year 2020 to 2021 mainly due to the change in investment performance. The Foundation had net investment income of \$1.2 million and a net increase in the fair value of investments of \$64.7 million for the year ended June 30, 2021.

Factors Impacting Future Periods

The Board of Trustees of the Foundation monitors the status of the economy, its impact on overall giving, pledges receivable, and the investment pools.

UC Riverside Foundation

Management's Discussion and Analysis (Unaudited)

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Charitable support is an important resource to UC Riverside. The Campaign for UC Riverside successfully closed in December 2020, raising \$313.0 million, exceeding the campaign goal of \$300 million. As new fundraising initiatives are planned and executed, the Foundation anticipates maintaining giving seen during the Campaign for UC Riverside in the endowment from new gifts, and a steady rate of incoming expendable gifts. In October 2021, the Beyond Brilliant fundraising initiative was launched with a goal to raise \$50 million over the next five years to support all aspects of UC Riverside students' educational experience. The Beyond Brilliant fundraising initiative will raise funds for scholarships and graduate fellowships, experiential learning opportunities, and health and wellness resources. The annual endowment payout to UC Riverside will rise due to a spending policy change that increased the rate of the average unit market value of the endowment fund in the endowment payout calculation that was effective in fiscal year 2021.

Management is not aware of any other factors within management's control that would have a significant impact on future periods.

UC Riverside Foundation
Statements of Net Position
June 30, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 13,029,960	\$ 12,580,685
Pledges receivable, net	<u>2,018,000</u>	<u>1,760,782</u>
Total current assets	<u>15,047,960</u>	<u>14,341,467</u>
Noncurrent assets		
Long-term investments	235,642,977	257,209,217
Investments held in charitable remainder trusts	521,904	628,110
Pledges receivable, net of current portion	<u>4,424,295</u>	<u>4,983,423</u>
Total noncurrent assets	<u>240,589,176</u>	<u>262,820,750</u>
Total assets	<u>\$ 255,637,136</u>	<u>\$ 277,162,217</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,828,707	\$ 2,051,765
Liabilities to life beneficiaries	<u>42,949</u>	<u>40,279</u>
Total current liabilities	1,871,656	2,092,044
Noncurrent liabilities		
Liabilities to life beneficiaries, net of current portion	<u>139,490</u>	<u>189,680</u>
Total liabilities	<u>\$ 2,011,146</u>	<u>\$ 2,281,724</u>
Deferred Inflows of Resources		
Deferred inflows from split-interest agreements	<u>\$ 339,465</u>	<u>\$ 398,151</u>
Total deferred inflows of resources	<u>\$ 339,465</u>	<u>\$ 398,151</u>
Net Position		
Restricted		
Nonexpendable		
Endowments	\$ 140,336,234	\$ 134,048,767
Expendable		
Endowment income and appreciation	80,817,067	107,909,258
Funds functioning as endowments for specific departments	15,817,259	17,641,979
Gifts	16,234,318	14,786,563
Unrestricted	<u>81,647</u>	<u>95,775</u>
Total net position	<u>\$ 253,286,525</u>	<u>\$ 274,482,342</u>

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

UC Riverside Foundation
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2022 and 2021

	2022	2021
Operating revenue		
Contributions, net	\$ 6,600,197	\$ 9,047,566
Other operating revenue	42,201	72,972
Total operating revenue	<u>6,642,398</u>	<u>9,120,538</u>
Operating expenses		
Grants to campus	14,026,380	12,040,123
Administrative and other operating expenses	131,650	88,978
Total operating expenses	<u>14,158,030</u>	<u>12,129,101</u>
Operating loss	<u>(7,515,632)</u>	<u>(3,008,563)</u>
Nonoperating income		
Investment income, net	744,818	1,202,425
Realized/unrealized (losses) gains on investments, net	<u>(20,675,668)</u>	<u>64,652,143</u>
Nonoperating (loss) income, net	<u>(19,930,850)</u>	<u>65,854,568</u>
(Loss) income before contributions to permanent endowments	(27,446,482)	62,846,005
Other changes in net position		
Contributions to permanent endowments	<u>6,250,665</u>	<u>9,546,202</u>
Change in net position	(21,195,817)	72,392,207
Net position, beginning of year		
Beginning of year	<u>274,482,342</u>	<u>202,090,135</u>
End of year	<u>\$253,286,525</u>	<u>\$274,482,342</u>

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

UC Riverside Foundation
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Receipts from contributions	\$ 6,690,971	\$ 4,511,698
Payments to campus	(14,253,539)	(12,031,413)
Payments to beneficiaries	(41,614)	(39,048)
Payments for administrative or operating expenses	(127,548)	(89,551)
Other receipts	49,747	14,059
Net cash used in operating activities	<u>(7,681,983)</u>	<u>(7,634,255)</u>
Cash flows from noncapital financing activity		
Contributions to permanent endowments	<u>5,186,348</u>	<u>8,374,429</u>
Net cash provided by noncapital financing activity	<u>5,186,348</u>	<u>8,374,429</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	11,791,517	15,823,422
Purchases of investments	(8,861,086)	(11,365,537)
Investment income, net of investment expense	14,479	31,789
Net cash provided by investing activities	<u>2,944,910</u>	<u>4,489,674</u>
Net change in cash and cash equivalents	449,275	5,229,848
Cash and cash equivalents		
Beginning of year	<u>12,580,685</u>	<u>7,350,837</u>
End of year	<u>\$ 13,029,960</u>	<u>\$ 12,580,685</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (7,515,632)	\$ (3,008,563)
Adjustments to reconcile operating loss to net cash used in operating activities		
Noncash gifts	(213,401)	(167,657)
Changes in operating assets and liabilities		
Pledges receivable, net	301,910	(4,437,678)
Accounts payable and accrued expenses	(223,058)	8,137
Liabilities to life beneficiaries	(31,802)	(28,494)
Net cash used in operating activities	<u>\$ (7,681,983)</u>	<u>\$ (7,634,255)</u>
Supplemental noncash activities information		
Contributions of marketable securities – operating	\$ 213,401	\$ 167,657
Contributions of marketable securities – endowment	1,064,317	1,171,773

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

UC Riverside Foundation

Notes to Financial Statements

June 30, 2022 and 2021

1. Organization

The UC Riverside Foundation (the "Foundation") is governed by an independent Board of Trustees, the membership of which includes the Chancellor of the University of California, Riverside ("UCR"). It is considered a governmental not-for-profit organization, subject to financial reporting under standards promulgated by the Governmental Accounting Standards Board ("GASB"). It was formed in December 1974 for the purpose of supporting education, research and public functions, and programs of the Riverside campus of the University of California (the "University"). Upon dissolution, liquidation, or winding up of the Foundation, the assets remaining after all debts have been satisfied, shall be distributed, transferred, conveyed, delivered, and paid over to the Regents of the University of California ("The Regents") for the benefit of UCR as provided in the Foundation's Articles of Incorporation, provided The Regents have maintained tax-exempt status under the Internal Revenue Code and relevant California laws.

Oversight by the University of California

The Foundation is subject to the policies and procedures of The Regents. All contributions to the Foundation ultimately benefit UCR. The Regents established the *Policy and Administrative Guidelines for Campus Foundations*, which requires that the Foundation transfer contributed expendable funds and endowment payout to UCR for ultimate expenditure in compliance with donor restrictions on gifts. Contributions that are made directly to The Regents for the benefit of UCR are not recorded by the Foundation and are not reflected in the accompanying financial statements; they are reflected in the financial statements of the University.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements for the Foundation have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Foundation follows accounting principles issued by GASB.

Use of Estimates

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

Classification of Current and Noncurrent Assets and Liabilities

The Foundation considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statements of net position date. Liabilities that reasonably can be expected, as part of normal Foundation 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.

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

Cash Equivalents

The Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Included in the Foundation's cash equivalents are amounts in the UC Regents Short Term Investment Pool (STIP).

UC Riverside Foundation

Notes to Financial Statements

June 30, 2022 and 2021

Contributions and Pledges

Pledges receivables are written unconditional promises to make future gifts. The Foundation recognizes a receivable and 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.

Pledge payments scheduled for collection within the next fiscal year are recorded as current assets. Pledge payments scheduled to be collected beyond one year are discounted to recognize the present value of the expected 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 based on management's assessment of the collectability of outstanding pledges.

Conditional pledges, which depend on the occurrence of uncertain or specified future events, such as matching gifts from other donors, are recognized when the condition is met.

Pledges for endowments are not recorded as revenue or a pledge receivable at the time the pledge is made, as the funds are not available to be invested in perpetuity as specified by the donor. Revenue is recognized on payments on endowed pledges when the cash is received and is recorded in contributions to permanent endowments.

Noncash contributions are recorded at the appraised value of the asset at the date of donation. Fair value is determined based on appraisals or other third-party sources. Gifts of securities are recorded based on fair value at the date of donation.

Investments

Investments are measured and recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or utilizing an industry standard pricing service, when available. In the case of commingled funds, the fair value is determined based on the number of units held in the fund multiplied by the price per unit share as quoted.

Investments consist principally of investments with UC Investments, General Endowment Pool (GEP). Investments also include separately held interests in private equity investments for which fair value is based on Net Asset Value ("NAV"). The net asset value (NAV) is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV is adjusted for capital calls, distributions, and significant known valuation changes, if any, of its related portfolio through June 30, 2022 and 2021, respectively, which is considered a practical expedient to fair value. These investments are generally less liquid than other investments, and the fair value reported may differ from the fair values that would have been reported had a ready market for these investments existed.

The Foundation exercises due diligence in assessing the external managers' use of and adherence to fair value principles.

UC Riverside Foundation

Notes to Financial Statements

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Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the cost of the investment sold. Dividend and interest income are accrued as earned.

Investments Held in Charitable Remainder Trusts

The Foundation has been designated as the trustee for several charitable remainder unitrusts. The trust agreements require that the trustee make annual payments to the beneficiaries. Upon the death of the life beneficiaries or termination of the trusts, as defined, the remaining assets of the trusts will become contributions to the Foundation, as stipulated in the trust agreements.

The fair value of the trust assets and a liability for the estimated future payments to the donor or other beneficiaries are recorded on the Foundation's financial statements in the year the trusts were given to the Foundation. The trusts are established by donors to provide income, generally for life, to the designated beneficiaries. Each year, beneficiaries receive payments based upon a percentage of the trust assets as specified in the trust agreement. The investment account is credited with investment activity and is charged with payments to beneficiaries. Each trust is a separate legal entity from the Foundation, and liability for trust payments to the life beneficiaries is limited to the assets of the trust. The trust assets are administered by and invested with a third-party trust administrator.

The Foundation periodically receives notification that it has a financial interest charitable remainder trust where the assets are invested and administered by outside trustees. The Foundation records the value of this interest as the net fair value of the underlying investments offset by the present value of the estimated future beneficiary payments over the expected life of the life beneficiaries, in accordance with GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.

Real Estate

From time to time, the Foundation receives assets other than cash from its donors. It is the Foundation's policy to sell these assets as soon as it is practicable to support campus programs or, in the case of endowment funds, to invest the proceeds from the sales in accordance with the Foundation's investment policy and donor agreement. Real estate is recorded at the lower of the independently appraised value or fair value, less estimated selling expenses. As of June 30, 2022, and 2021, the Foundation does not hold any real estate.

Net Position

The Foundation's net position is classified as follows:

Restricted – Nonexpendable

Assets, which are subject to externally imposed restrictions, requiring the Foundation to invest principal in perpetuity for the purpose of producing income that may be expended or added to principal. Net position in this category consists of permanent endowments held by the Foundation.

Restricted – Expendable

Assets, which are subject to externally imposed restrictions that can be fulfilled by the actions of the Foundation or by the passage of time. Funds functioning as endowments are contributions designated by the donor for various campus departments, which have been accumulated by those departments as quasi-endowments. Income and appreciation earned on funds functioning as endowment are expendable by the designated department. Endowment income and appreciation represents the expendable earnings on endowments. Restricted gifts are comprised of funds received that the donor has restricted to be expended to benefit a particular purpose or function of the University.

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Unrestricted

All other categories of net position are those that are not subject to donor-imposed restrictions. In addition, management of the Foundation may designate unrestricted net position for use.

Classification of Revenue and Expenses

Operating revenue 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 revenue is derived from contributions and other fund-raising activities. Operating expenses consist primarily of grants to the campus and administrative expenses.

Nonoperating revenue and expenses consist of investment income, investment management services fees, realized gains (losses) on investments, and the change in unrealized appreciation (depreciation) in the fair value of investments.

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

Spending Policy of Endowments

The 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 standard of prudence is prescribed, whereas a charity can spend the amount the charity deems prudent after considering the donor's intent that the endowment continues permanently, the purpose of the fund, and relevant economic factors. The Foundation's Board of Trustees approved a 4.5% spending rate of the endowment fund's average unit value effective fiscal year 2021. For fiscal year 2022, the average unit market value is calculated using the closing unit market value on the last day of each of the 60 contiguous months, the last of which ended on May 31 of such fiscal year. This policy is consistent with the Endowment Investment and Spending Policy and Guidelines adopted by the Board of Trustees. Earnings in excess of the payout rate are retained in the endowments as restricted expendable.

Income 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.

Liabilities to Life Beneficiaries

The Foundation uses the actuarial method of recording split-interest agreements. Under this method, when a gift is received, the present value of the expected payments to life beneficiaries is recorded as a liability and the remainder is recorded as deferred inflows of resources from split-interest agreements. Annually, adjustments are made between the liability account and the deferred inflows of resources account for changes in value of split interest agreements caused primarily by changes in life expectancies.

The present value of liabilities to life beneficiaries is calculated using discount rates based upon the U.S. government securities, treasury constant maturities, and nominal rate tables. The discount rates ranged from 2.73% to 8.23%.

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Deferred Inflows of Resources

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

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	2022	2021
Demand deposits	\$ 224,953	\$ 1,946,149
Money market	742	193
UC Regents Short Term Investment Pool (STIP)	<u>12,804,265</u>	<u>10,634,343</u>
	<u>\$ 13,029,960</u>	<u>\$ 12,580,685</u>

The Foundation maintains centralized management for substantially all of its cash. Cash in demand deposit accounts is minimized by sweeping available cash balances into the STIP on an as-needed basis. STIP is a money market portfolio, which serves as the Foundation's core cash vehicle for expendable funds. The Foundation does not have any exposure to foreign currency risk in demand deposit accounts.

Cash and cash equivalents as reported on the statements of financial position comprise demand deposits maintained at the Foundation's bank as well as amounts deposited in money market accounts and the STIP. The bank balance of demand deposits at financial institutions was \$224,953 and \$1,946,149 at June 30, 2022 and 2021, respectively. Demand deposits held at financial institutions were insured by the Federal Depository Insurance Corporation (FDIC) up to \$250,000 per account at June 30, 2022. Money market accounts and funds held in STIP totaling \$12,805,007 and \$10,634,536 at June 30, 2022 and 2021, respectively, were not insured by either the FDIC or Securities Investor Protection Corporation and were uncollateralized.

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4. Investments and Investments in Trusts

At June 30, 2022 and 2021, the composition of investments and investments held in charitable remainder trusts is summarized as follows:

	2022	2021
Equity securities - U.S.	\$ 120,363	\$ 111,889
Exchange Traded Products - U.S.	97,187	147,155
Other	2,572	2,461
Commingled funds		
Balanced funds	232,517,272	254,449,256
Private equity	2,905,582	2,498,455
U.S. equity funds	251,889	317,200
Non-U.S. equity funds	74,377	93,816
U.S. bond funds	190,225	211,581
Money market	5,414	5,514
Total investments and investments held in trusts	<u>\$ 236,164,881</u>	<u>\$ 257,837,327</u>

The Foundation holds the majority of investment assets in UC Investments GEP. GEP is a balanced portfolio containing U.S. and foreign equities, high-yield U.S. equities, U.S. and foreign bonds, and real estate that provide diversification and economies of scale. 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 primary goal is to maximize long-term total return, growth of principal, and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained. This fund is used as the core investment vehicle for the Foundation's endowed contributions and may be redeemed monthly with 30 days notice; however, a withdrawal from corpus of more than five percent for endowments with a market value of more than \$5.0 million must have the University President's approval. The investments are managed by the Finance and Investment Committee with Board approval. The Foundation uses several Regents of the University of California charitable asset management (CAM) commingled funds (UC pooled funds), offered to the campus foundations by UC Investments, for its charitable remainder unitrust investments.

Investment Performance

The components of realized/unrealized gains and losses on investments are as follows:

	2022	2021
Unrealized gains (losses) on investments	\$ (20,662,151)	\$ 62,429,367
Realized gains (losses) on investments, net	<u>(13,517)</u>	<u>2,222,776</u>
Realized/unrealized gains (losses) on investments, net	<u>\$ (20,675,668)</u>	<u>\$ 64,652,143</u>

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed-income securities. Equity securities respond to such factors as economic conditions, individual company

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earnings performance, and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates.

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 circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have 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, for example, Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance in the rating agency's opinion that the bond issuer will default or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

The credit risk profile for the Foundation's fixed-income securities at June 30, 2022 and 2021 is as follows:

	2022	2021
Commingled funds		
U.S. bond funds—not rated	\$ 190,225	\$ 211,581
Money market—not rated	<u>5,414</u>	<u>5,514</u>
	<u>\$ 195,639</u>	<u>\$ 217,095</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the Foundation's investments may not be returned. Substantially, all of the Foundation's investments are issued, registered, or held in the name of the Foundation by its master custodian, as agent for the Foundation. Other types of investments represent ownership interests that do not exist in physical or book-entry form.

Substantially, the majority of the Foundation's endowment investment assets are invested with the various investment pools overseen by UC Investments, which complies with the risk guidelines for GEP and STIP as approved by the Regents. These pools are considered to be investments in external pools and are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

As a result, custodial risk is considered to be remote.

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Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Concentration of credit risk associated with the Foundation's investments must be disclosed if investments in any one issuer represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

At June 30, 2022 and 2021, the Foundation did not hold qualifying investments that were greater than 5% of the investment portfolio.

Interest Rate Risk

Interest rate risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The 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. Effective duration is the approximate change in price of a security resulting from a 100-basis point (1% point) change in the level of interest rates. It is not a measure of time.

The effective duration for the Foundation's fixed-income securities at June 30, 2022 and 2021 is as follows:

	2022	2021
Commingled funds		
U.S. bond funds	2.3 years	2.8 years

The Foundation considers the effective duration to be zero for money market accounts because they are designed to have a constant \$1 share value due to the short term, liquid nature of the underlying securities.

Foreign Currency Risk

Foreign currency risk is the possibility that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect a deposit or investment's fair value. The Foundation's endowment and charitable remainder trust asset allocation policies include allocations to non-U.S. securities that incurs foreign currency risk. This exposure is obtained through investment in non-U.S. equity mutual and ETF funds, and a University of California CAM commingled non-U.S. equity fund. These funds may hold foreign currency denominated investments.

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

	2022	2021
Commingled funds		
Non-U.S. equity funds	<u>\$ 74,377</u>	<u>\$ 93,816</u>
	<u>\$ 74,377</u>	<u>\$ 93,816</u>

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Alternative Investment Risks

Alternative investments include ownership interests in a wide variety of partnership and fund structures that may be domestic, offshore, or foreign. Generally, there is little or no regulation of these investments by the Securities and Exchange Commission or U.S. state attorneys general. These investments employ a wide variety of strategies including absolute return, hedge, venture capital, private equity and other strategies. Investments in this category may employ leverage to enhance the investment return. Underlying investments can include financial assets such as marketable securities, nonmarketable securities, derivatives, and synthetic and structured instruments; real assets; tangible and intangible assets; and other funds and partnerships. Generally, these investments do not have a ready market or may not be traded without approval of the general partner or fund management.

5. Fair Value

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 publicly 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, commingled funds, certain derivatives and other assets that are valued using market information.
- Level 3 Investments 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 are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments may include private equity investments.

Net Asset Value (NAV) – Investments whose fair value is measured at NAV, which is considered a practical expedient to fair value, are excluded from the fair value hierarchy. Investments in nongovernmental entities that do not have a readily determinable fair value may be valued at NAV. Investments measured at NAV include hedge funds, private equity investments, and commingled funds. Investments measured at NAV include commingled GEP funds.

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

The following table summarizes the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2022:

	Markets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Value (NAV)	Leveled	Total
Equity securities	\$ 120,363	-	-	-	-	\$ 120,363
Exchange Traded Products	97,187	-	-	-	-	97,187
Commingled funds	-	-	-	235,939,345	-	235,939,345
Money market funds	5,414	-	-	-	-	5,414
Other	-	-	-	-	2,572	2,572
Total investments and investments held in trusts	\$ 222,964	\$ 0	\$ 0	\$ 235,939,345	\$ 2,572	\$ 236,164,881

The following table summarizes the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2021:

	Markets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Value (NAV)	Leveled	Total
Equity securities	\$ 111,889	-	-	-	-	\$ 111,889
Exchange Traded Products	147,155	-	-	-	-	147,155
Commingled funds	-	-	-	257,570,308	-	257,570,308
Money market funds	5,514	-	-	-	-	5,514
Other	-	-	-	-	2,461	2,461
Total investments and investments held in trusts	\$ 264,558	\$ 0	\$ 0	\$ 257,570,308	\$ 2,461	\$ 257,837,327

The Foundation addresses the nature and risks of the investments and whether the investments are probable of being sold at amounts different from the NAV per share (or its equivalent).

Investment Related Commitments

The Foundation has contractual commitments to make additional investments in private equity and other privately structured investment vehicles reported at NAV. The following table presents significant terms of such agreements, including unfunded commitments, redemption frequency and redemption notice period, for the Foundation's alternative investments measured at NAV as of June 30, 2022.

Investment Type	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds				
Absolute return and hedge funds	\$0		Quarterly	30 - 65 days
Balanced Funds	\$232,517,272		Monthly	30 day notice
U.S. equity	\$251,889		Monthly	5 business days before end of month
Non-U.S. equity	\$74,377		Monthly	5 business days before end of month
U.S. bond funds	\$190,225		Monthly	5 business days before end of month
Private equity	\$2,905,582	\$200,000	Not eligible for redemption	n/a
Total investments measured at NAV	\$235,939,345	\$200,000		

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The following table presents significant terms of such agreements, including unfunded commitments, redemption frequency and redemption notice period, for the Foundation's alternative investments measured at NAV as of June 30, 2021.

Investment Type	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds				
Absolute return and hedge funds	\$0		Quarterly	30 - 65 days
Balanced Funds	\$254,449,256		Monthly	30 day notice
U.S. equity	\$317,200		Monthly	5 business days before end of month
Non-U.S. equity	\$93,816		Monthly	5 business days before end of month
U.S. bond funds	\$211,581		Monthly	5 business days before end of month
Private equity	\$2,498,455	\$600,000	Not eligible for redemption	n/a
Total investments measured at NAV	\$257,570,308	\$600,000		

6. Pledges Receivable

Pledges receivables represent unconditional promises of contributions to be collected in future periods. Included in pledges receivable at June 30, 2022 and 2021, are pledges made by trustees of the Foundation, with the net amount of such receivables totaling \$5,018,394 and \$5,588,895, respectively.

Management evaluates the collectability of its receivables and records an allowance for estimated uncollectible amounts. Pledges due beyond one year are discounted using rates ranging from 0.4% to 2.4% as of June 30, 2022 and 2021. The discount rates will be established upon receipt of the pledge and applied for the life of the respective pledges. Pledges recorded during fiscal years 2022 and 2021 were discounted at 0.4% and 0.8% respectively. This discount rate is the average rate of the STIP for these respective years. In subsequent years, this discount is accreted and recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

Pledges receivables consist of the following at June 30:

	2022	2021
Pledges receivable due in one year or less	\$ 2,018,000	\$ 1,760,782
Pledges receivable due between one and five years	4,516,362	5,118,395
Less: Discount for future payments	<u>(92,067)</u>	<u>(134,972)</u>
Net pledges receivable	<u>\$ 6,442,295</u>	<u>\$ 6,744,205</u>
Current pledges receivable, net	\$ 2,018,000	\$ 1,760,782
Noncurrent pledges receivable, net	<u>4,424,295</u>	<u>4,983,423</u>
	<u>\$ 6,442,295</u>	<u>\$ 6,744,205</u>

7. Liabilities to Life Beneficiaries

At June 30, 2022 and 2021, the Foundation was the remainderman and trustee of \$521,904 and \$628,110 respectively, of trust assets from charitable remainder trusts. The trust assets were

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recorded at fair value as of the date at which the Foundation became the trustee of the trust and are adjusted each reporting period. The trusts make periodic annuity payments to designated individuals or beneficiaries over their lifetimes. The difference between the liability to the life beneficiaries and the fair value of the trust assets at the time of donation is recorded as deferred inflows from split-interest agreements. Liabilities to life beneficiaries of \$182,439 and \$229,959 at June 30, 2022 and 2021, respectively, represent the actuarially determined present value of payments over the expected lives of the beneficiaries discounted to their expected present value using rates ranging from 2.73% to 8.23%.

Changes in liabilities to life beneficiaries during the current fiscal year are summarized as follows:

	Balance at June 30, 2021		Additions		Decreases		Balance at June 30, 2022
Liabilities to life beneficiaries	\$ 229,959	\$	-	\$	(47,520)	\$	182,439

Changes in liabilities to life beneficiaries during the previous fiscal year are summarized as follows:

	Balance at June 30, 2020		Additions		Decreases		Balance at June 30, 2021
Liabilities to life beneficiaries	\$ 202,145	\$	27,814	\$	-	\$	229,959

8. Transactions with UC Riverside

UC Riverside provides the facilities, personnel, and operating budget for the Foundation. All pension and postretirement benefit expenses and liabilities related to these personnel provided, are recorded on the financial statements of UC Riverside.

Per UC Riverside campus policies, the Foundation remits a gift fee of 5% on each gift, as well as the short-term interest and dividend earnings on its expendable gift and accumulated endowment payout balances to the campus. These fees become a resource of the Chancellor to help support costs of the campus and in particular those related to Advancement. In addition, per campus policy and as permitted by law, an endowment cost recovery fee is assessed annually on the endowment and endowment-related funds to offset the campus costs of administering and carrying out the terms of the endowment and endowment-related funds. For the years ended June 30, 2022 and 2021, the gift fee, interest and dividend earnings, and the cost recovery fees amounted to \$1,500,989 and \$1,476,933, respectively, and are reflected within grants to campus on the statements of revenue, expenses, and changes in net position.

9. Related-Party Transactions

During the years ended June 30, 2022 and 2021, \$4,010,550 and \$804,714, respectively, were received in contributions from Trustees of the Board.

10. Subsequent Events

The Foundation has evaluated subsequent events from the net position date through September 23, 2022 the date which the financial statements were available to be issued and determined there are no items to disclose.