

UC Riverside Foundation
Financial Statements
June 30, 2019 and 2018

UC Riverside Foundation
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June 30, 2019 and 2018

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Report of Independent Auditors

To the Board of Trustees of the
UC Riverside Foundation

We have audited the accompanying financial statements of UC Riverside Foundation (the "Foundation"), a component unit of the University of California, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Foundation's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2019 and 2018, respectively, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

October 7, 2019

UC Riverside Foundation

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

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, 2019 and 2018. 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, 2019 and 2018. 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, 2019 and 2018, 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, 2019 and 2018, 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 2019, the Foundation's net position, which represents the excess of total assets over liabilities, increased by \$6.0 million. This is compared to an increase in net position during fiscal year 2018 of \$15.9 million and an increase during fiscal year 2017 of \$27.8 million. The primary factors for the increase in net position during fiscal year 2019 was due to a trust termination and increase in investment income due to investment dividends. In 2019, as compared to 2018, marketable U.S. equity and international equity funds and securities saw a decline in returns.

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During 2019, overall contributions to the Foundation increased by \$2.8 million over that of fiscal year 2018. This was due to an increase in outright cash contributions. Fiscal year 2018 saw a decrease in contributions over fiscal 2017 due to a decrease in contributions to permanent endowments and outright cash gifts.

Nonoperating gains in fiscal year 2019 were \$1.9 million as compared to nonoperating gains of \$13.3 million in 2018 and nonoperating gains of \$24.7 million in 2017. This change was primarily due to the decline of returns on marketable U.S. and international equity funds and securities and on marketable U.S. bond funds.

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		
	2019	2018	2017
Assets			
Current assets	\$ 18,493,921	\$ 11,104,546	\$ 10,975,932
Noncurrent assets	170,674,023	175,722,087	160,174,144
Total assets	<u>\$ 189,167,944</u>	<u>\$ 186,826,633</u>	<u>\$ 171,150,076</u>
Liabilities			
Current liabilities	\$ 1,862,879	\$ 2,058,136	\$ 2,247,909
Noncurrent liabilities	179,214	1,348,458	1,478,338
Total liabilities	<u>\$ 2,042,093</u>	<u>\$ 3,406,594</u>	<u>\$ 3,726,247</u>
Deferred inflows of resources			
Deferred inflows from split-interest agreements	323,077	2,652,921	2,595,209
Total deferred inflows of resources	<u>\$ 323,077</u>	<u>\$ 2,652,921</u>	<u>\$ 2,595,209</u>
Net position			
Restricted			
Nonexpendable	\$ 110,174,599	\$ 105,007,002	\$ 98,220,481
Expendable	76,257,957	75,546,940	66,374,942
Unrestricted	370,218	213,176	233,197
Total net position	<u>\$ 186,802,774</u>	<u>\$ 180,767,118</u>	<u>\$ 164,828,620</u>

Assets

Total current assets increased by \$7.4 million during the fiscal years ended June 30, 2019, and increased \$129,000 during the year ended June 30, 2018. The increase in current assets during year 2019 was primarily due to proceeds received from a trust termination in the fourth quarter of the fiscal year and cash held for investment purposes. The increase in current assets during year 2018 was primarily due to an increase in pledges receivable offset by a decrease of cash and cash equivalents

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Total noncurrent assets decreased by \$5.0 million during the fiscal year ended June 30, 2019, and increased by \$15.5 million during fiscal year June 30, 2018. The decrease in noncurrent assets during year 2019 was primarily attributable due to a trust termination. The increase in noncurrent assets during fiscal year 2018 was primarily attributable to positive investment returns.

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 \$195,000 and noncurrent liabilities decreased by \$1.2 million in fiscal year 2019, due to a decrease in liabilities to life beneficiaries from the termination of a trust.

Current liabilities decreased by \$190,000 and noncurrent liabilities decreased by \$130,000 in fiscal year 2018, due to a decrease in accrued expenses and in liabilities to life beneficiaries at fiscal year ended June 30, 2018.

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 \$2.3 million in fiscal year 2019 due to the termination of a trust.

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		
	2019	2018	2017
Nonexpendable			
Endowments	\$ 110,174,599	\$ 105,007,002	\$ 98,220,481
Total nonexpendable	<u>\$ 110,174,599</u>	<u>\$ 105,007,002</u>	<u>\$ 98,220,481</u>
Expendable			
Endowment income and appreciation	\$ 52,586,985	\$ 56,105,178	\$ 48,949,679
Funds functioning as endowments	13,791,612	10,997,545	10,472,598
Gifts	9,879,360	8,444,217	6,952,665
Total expendable	<u>\$ 76,257,957</u>	<u>\$ 75,546,940</u>	<u>\$ 66,374,942</u>

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Net position increased by \$6.0 million in fiscal year 2019 position increased by \$15.9 million in fiscal year 2018, as reflected below:

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

	June 30		
	2019	2018	2017
Operating revenue	\$ 8,595,908	\$ 4,712,732	\$ 6,714,568
Operating expenses	<u>10,819,990</u>	<u>9,264,132</u>	<u>12,067,167</u>
Operating loss	(2,224,082)	(4,551,400)	(5,352,599)
Nonoperating income (losses)	1,930,078	13,290,500	24,720,361
Contributions to permanent endowments	<u>6,329,660</u>	<u>7,199,398</u>	<u>8,406,032</u>
Change in net position	6,035,656	15,938,498	27,773,794
Net position			
Beginning of year, as previously reported	180,767,118	164,828,620	137,054,826
End of year	<u>\$ 186,802,774</u>	<u>\$ 180,767,118</u>	<u>\$ 164,828,620</u>

Revenue and Expense

Revenue from contributions increased \$3.7 million from fiscal year 2018 to 2019. This increase was mainly attributed to proceeds received from a trust termination and an increase in net contributions. Contributions to endowments decreased this year compared to fiscal year 2018 by \$870,000. This was primarily due a decrease in outright cash contributions and gifts of marketable securities.

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 2017 and 2018, in fiscal year 2019 grants made to the campus exceeded recognized contribution revenue, resulting in an operating loss.

Nonoperating income decreased by \$11.4 million in comparison with the prior year substantially due to the change in investment performance. The Foundation had net investment income of \$5.7 million and a net decrease in the fair value of investments of \$3.4 million for the year ended June 30, 2019.

Revenue from contributions decreased \$2.0 million from fiscal year 2017 to 2018. The decrease was mainly due to a decrease in outright cash contributions offset by an increase in gifts of marketable securities. Contributions to endowments decreased in 2018 compared to fiscal year 2017 by \$1.2 million. This was primarily due to a decrease in outright cash contributions offset by an increase in gifts of marketable securities.

Nonoperating income decreased by \$11.4 million in fiscal year 2018 in comparison with the prior year substantially due to the change in investment performance. The Foundation had net investment income of \$3.1 million and net appreciation in the fair value of investments of \$10.2 million for the year ended June 30, 2018.

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Factors Impacting Future Periods

Factors that can significantly impact future periods include the state of the overall economy, tax law changes and the financial markets, which impact charitable giving and the value of investments. The Board of Trustees of the Foundation monitors the status of the economy, its impact on overall giving, pledges receivable, and the investment pools.

Charitable support is an important resource to UC Riverside. In the future, due to the Campaign for UC Riverside, the Foundation anticipates growth in the endowment from new gifts and investment returns, and a higher rate of incoming expendable gifts. The transfer of funds (contributions and endowment payout) to UC Riverside is also anticipated to increase.

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

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Statements of Net Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 16,250,766	\$ 10,070,864
Pledges receivable, net	<u>2,243,155</u>	<u>1,033,682</u>
Total current assets	<u>18,493,921</u>	<u>11,104,546</u>
Noncurrent assets		
Long-term investments	168,401,468	166,242,584
Investments held in charitable remainder trusts	535,564	4,446,212
Pledges receivable, net of current portion	1,736,991	1,883,291
Real estate held in endowment funds	<u>-</u>	<u>3,150,000</u>
Total noncurrent assets	<u>170,674,023</u>	<u>175,722,087</u>
Total assets	<u>\$ 189,167,944</u>	<u>\$ 186,826,633</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,829,606	\$ 1,613,303
Liabilities to life beneficiaries	<u>33,273</u>	<u>444,833</u>
Total current liabilities	1,862,879	2,058,136
Noncurrent liabilities		
Liabilities to life beneficiaries, net of current portion	<u>179,214</u>	<u>1,348,458</u>
Total liabilities	<u>\$ 2,042,093</u>	<u>\$ 3,406,594</u>
Deferred Inflows of Resources		
Deferred inflows from split-interest agreements	<u>323,077</u>	<u>2,652,921</u>
Total deferred inflows of resources	323,077	2,652,921
Net Position		
Restricted		
Nonexpendable		
Endowments	\$ 110,174,599	\$ 105,007,002
Expendable		
Endowment income and appreciation	52,586,985	56,105,178
Funds functioning as endowments for specific departments	13,791,612	10,997,545
Gifts	9,879,360	8,444,217
Unrestricted	<u>370,218</u>	<u>213,176</u>
Total net position	<u>\$ 186,802,774</u>	<u>\$ 180,767,118</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, 2019 and 2018

	2019	2018
Operating revenue		
Contributions, net	\$ 8,326,963	\$ 4,659,389
Other operating revenue	268,945	53,343
Total operating revenue	<u>8,595,908</u>	<u>4,712,732</u>
Operating expenses		
Grants to campus	10,629,132	9,090,355
Administrative and other operating expenses	190,858	173,777
Total operating expenses	<u>10,819,990</u>	<u>9,264,132</u>
Operating loss	<u>(2,224,082)</u>	<u>(4,551,400)</u>
Nonoperating income		
Investment income, net	5,663,701	3,055,137
Realized/unrealized gains (losses) on investments and real estate, net	(3,406,414)	10,242,517
Other nonoperating income (loss), net	<u>(327,209)</u>	<u>(7,154)</u>
Total nonoperating income, net	<u>1,930,078</u>	<u>13,290,500</u>
Income before contributions to permanent endowments	(294,004)	8,739,100
Other changes in net position		
Contributions to permanent endowments	<u>6,329,660</u>	<u>7,199,398</u>
Change in net position	6,035,656	15,938,498
Net position, beginning of year:		
Beginning of year, as previously reported	180,767,118	164,828,620
Cumulative effect of accounting changes		-
Beginning of year, as restated	<u>180,767,118</u>	<u>164,828,620</u>
End of year	<u>\$ 186,802,774</u>	<u>\$ 180,767,118</u>

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

UC Riverside Foundation
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Receipts from contributions	\$ 7,099,220	\$ 3,363,201
Payments to campus	(10,384,069)	(9,299,340)
Payments to beneficiaries	(297,690)	(434,421)
Payments for administrative or operating expenses	(219,618)	(175,387)
Other receipts	367,649	173,921
Net cash used in operating activities	<u>(3,434,508)</u>	<u>(6,372,026)</u>
Cash flows from noncapital financing activity		
Contributions to permanent endowments	<u>4,746,622</u>	<u>5,486,006</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	105,026,774	70,208,684
Purchases of investments	(105,752,027)	(72,481,171)
Investment income, net of investment expense	<u>5,593,041</u>	<u>3,011,019</u>
Net cash (used in) provided by investing activities	<u>4,867,788</u>	<u>738,532</u>
Net change in cash and cash equivalents	6,179,902	(147,488)
Cash and cash equivalents		
Beginning of year	<u>10,070,864</u>	<u>10,218,352</u>
End of year	<u>\$ 16,250,766</u>	<u>\$ 10,070,864</u>
Reconciliation of operating loss income to net cash used in operating activities		
Operating loss	\$ (2,224,082)	\$ (4,551,400)
Adjustments to reconcile operating loss to net cash used in operating activities		
Noncash gifts	(103,674)	(463,801)
Changes in operating assets and liabilities		
Pledges receivable, net	(1,063,173)	(794,388)
Other assets	(67,637)	(34,881)
Accounts payable	216,303	(210,596)
Liabilities to life beneficiaries	(192,245)	(316,960)
Net cash used in operating activities	<u>\$ (3,434,508)</u>	<u>\$ (6,372,026)</u>
Supplemental noncash activities information		
Contributions of marketable securities – operating	\$ 67,538	\$ 462,849
Contributions of marketable securities – endowment	1,583,038	1,713,392
Contributions of other assets	-	952

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

UC Riverside Foundation

Notes to Financial Statements

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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 US 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.

New Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for the University’s fiscal year beginning July 1, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or an equivalent arrangement that meets specific criteria. Under Statement No. 84, the University expects that funds held for others would be reported separately as fiduciary activities and will result in a reduction of related assets and liabilities on the statements of net position.

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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:

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

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).

Contributions and Pledges

Pledges receivable 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

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is determined based on the number of units held in the fund multiplied by the price per unit share as quoted.

Investments also include interests in hedge funds and 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, 2019 and 2018, 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.

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 is 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. As of June 30, 2018, the Foundation held real estate previously contributed as part of an endowment fund. Real estate is recorded at the lower of the independently appraised value or fair value, less estimated selling expenses. As of June

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30, 2019 the Foundation does not hold any real estate due to the sale of the one piece of property owned by the Foundation in Q4 of fiscal year 2019.

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.

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.

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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 continue permanently, the purpose of the fund, and relevant economic factors. The Foundation's Board of Trustees approved a 4.0% spending rate of the endowment fund's average unit value for fiscal year 2019. For fiscal year 2019, the average unit market value is calculated using the closing unit market value on the last day of each of the 84 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%.

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:

	2019	2018
Demand deposits	\$ 5,011,937	\$ 282,067
Money market	\$ 2,651,745	\$ 895,865
UC Regents Short Term Investment Pool (STIP)	\$ 8,587,084	\$ 8,892,932
	<u>\$ 16,250,766</u>	<u>\$ 10,070,864</u>

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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 \$5,011,937 and \$282,067 at June 30, 2019 and 2018, 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, 2019. Money market accounts and funds held in STIP totaling \$11,238,829 and \$9,788,797 at June 30, 2019 and 2018, respectively, were not insured by either the FDIC or Securities Investor Protection Corporation and were uncollateralized.

4. Investments and Investments in Trusts

At June 30, 2019 and 2018, the composition of investments and investments held in charitable remainder trusts is summarized as follows:

	2019	2018
Equity securities - U.S.	\$ 69,092,741	\$ 37,795,770
Other	107,834	53,013
Commingled funds		
Absolute return and hedge funds	15,734,735	15,243,125
Private equity	6,775,602	3,770,263
U.S. equity funds	22,973,163	24,428,461
Non-U.S. equity funds	37,382,618	71,058,162
U.S. bond funds	16,866,570	18,302,701
Money market	3,769	37,301
Total investments and investments held in trusts	<u>\$ 168,937,032</u>	<u>\$ 170,688,796</u>

The Foundation holds equity, fixed income, and alternative investments. The largest portion of these investments relates to the Foundation's endowment. 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 the Office of the Chief Investment Officer of the Regents (OCIO), for its charitable remainder unitrust investments.

Investment Performance

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

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	2019	2018
Unrealized gains (losses) on investments	\$ (15,759,992)	\$ (1,239,303)
Realized gains on investments, net	<u>12,353,579</u>	<u>11,481,820</u>
Net realized/unrealized gains (losses) on investments and real estate	<u>\$ (3,406,414)</u>	<u>\$ 10,242,517</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 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 Foundation's policy is to invest in individual fixed-income securities, commingled fixed-income mutual funds, exchange traded funds and University of California CAM commingled fixed-income funds (UC pooled funds).

The credit risk profile for the Foundation's fixed-income securities at June 30, 2019 and 2018 is as follows:

	2019	2018
Commingled funds		
U.S. bond funds – not rated	\$ 16,866,570	\$ 18,302,701
Money market– not rated	<u>3,769</u>	<u>37,301</u>
	<u>\$ 16,870,339</u>	<u>\$ 18,340,002</u>

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

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, 2019 and 2018, 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, 2019 and 2018 is as follows:

	2019	2018
Commingled funds		
U.S. bond funds	3.3 years	3.3 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. 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. The Foundation's investment policy with respect to foreign currency risk restricts investments to U.S. dollar-denominated securities.

At June 30, 2019 and 2018, the U.S. dollar balances of investments that carry foreign currency risk type are as follows:

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	2019	2018
Commingled funds		
Non-U.S. equity funds	\$ 37,382,618	\$ 71,058,162
	<u>\$ 37,382,618</u>	<u>\$ 71,058,162</u>

Alternative Investment Risks

Alternative investments include ownership interests in a wide variety of partnership and fund structures that may be domestic, off-shore 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.

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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.

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, 2019:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Not Leveled	Total
Equity securities	\$ 69,092,741	\$ -	\$ -	\$ -	\$ -	\$ 69,092,741
Commingled funds	76,691,595			23,041,094		99,732,689
Money market funds	-				3,769	3,769
Other	-				107,834	107,834
Total investments and investments held in trusts	<u>\$ 145,784,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$23,041,094</u>	<u>\$ 111,603</u>	<u>\$ 168,937,032</u>

The following table summarizes the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2018:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Not Leveled	Total
Equity securities	\$ 37,795,770	\$ -	\$ -	\$ -	\$ -	\$ 37,795,770
Commingled funds	109,389,308			23,413,404		132,802,712
Money market funds					37,301	37,301
Other					53,013	53,013
Total investments and investments held in trusts	<u>\$ 147,185,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$23,413,404</u>	<u>\$ 90,314</u>	<u>\$ 170,688,796</u>

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

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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, 2019.

Investment Type	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds				
Absolute return and hedge funds	\$ 15,734,735	\$ -	Quarterly	30 - 65 days
U.S. equity	267,110		Monthly	5 business days before end of month
Non-U.S. equity	79,181		Monthly	5 business days before end of month
U.S. bond funds	184,465		Monthly	5 business days before end of month
Private equity	6,775,602	8,495,857	Not eligible for redemption	n/a
Total investments measured at NAV	\$ 23,041,094	\$8,495,857		

6. Pledges Receivable

Pledges receivable represent unconditional promises of contributions to be collected in future periods. Included in pledges receivable at June 30, 2019 and 2018, are pledges made by trustees of the Foundation, with the net amount of such receivables totaling \$720,929 and \$702,338, 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 1.2% to 2.4% as of June 30, 2019 and 2018. 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 2019 and 2018 were discounted at 2.4% and 1.6% 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 receivable consist of the following at June 30:

	2019	2018
Pledges receivable due in one year or less	\$ 2,243,155	\$ 1,033,682
Pledges receivable due between one and five years	1,802,315	1,952,647
Less: Discount for future payments	(65,324)	(69,356)
Net pledges receivable	<u>\$ 3,980,146</u>	<u>\$ 2,916,973</u>
Current pledges receivable, net	\$ 2,243,155	\$ 1,033,682
Noncurrent pledges receivable, net	<u>1,736,991</u>	<u>1,883,291</u>
	<u>\$ 3,980,146</u>	<u>\$ 2,916,973</u>

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7. Liabilities to Life Beneficiaries

At June 30, 2019 and 2018, the Foundation was the remainderman and trustee of \$535,564 and \$4,446,212, respectively, of trust assets from charitable remainder trusts. The trust assets were 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 \$212,487 and \$1,793,291 at June 30, 2019 and 2018, 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, 2018	Additions	Decreases	Balance at June 30, 2019
Liabilities to life beneficiaries	\$ 1,793,291	\$ -	\$ (1,580,804)	\$ 212,487

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

	Balance at June 30, 2017	Additions	Decreases	Balance at June 30, 2018
Liabilities to life beneficiaries	\$ 1,902,348	\$ -	\$ (109,057)	\$ 1,793,291

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, 2019 and 2018, the gift fee, interest and dividend earnings, and the cost recovery fees amounted to \$1,319,502 and \$1,105,111, respectively, and are reflected within grants to campus on the statements of revenue, expenses, and changes in net position.

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9. Related-Party Transactions

During the years ended June 30, 2019 and 2018, \$1,712,127 and \$1,873,531, 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 October 7, 2019 the date which the financial statements were available to be issued, and determined there are no items to disclose.