College Futures Foundation

Financial Statements

December 31, 2018 and 2017

BPM

COLLEGE FUTURES FOUNDATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
College Futures Foundation

We have audited the accompanying financial statements of College Futures Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statement of activities and changes in net assets, and cash flow for the year then ended. In addition, we have audited the consolidated statement of financial position as of December 31, 2017, and the related consolidated statement of activities and changes in net assets, and cash flow for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 the auditors' 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, the auditors consider internal control relevant to the entity'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 entity'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 College Futures Foundation as of December 31, 2018 and 2017, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BPM LLP

San Francisco, California
September 27, 2019

College Futures Foundation

Statements of Financial Position

As of December 31, 2018 and 2017

(In thousands)

	2018	2017 *(Consolidated)*
ASSETS		
Cash and cash equivalents	$ 3,268	$ 5,099
Investments, at fair value	472,038	506,586
Net receivables from unsettled trades	10,500	5,000
Other assets, net	1,517	2,081
Fixed assets, net	1,419	670
Total assets	$ 488,742	$ 519,436
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,486	$ 847
Grants payable, net	9,081	12,457
Deferred federal excise tax liability	1,660	2,328
Total liabilities	12,227	15,632
Net assets without donor restrictions	476,515	503,804
Total liabilities and net assets	$ 488,742	$ 519,436

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

College Futures Foundation

Statements of Activities and Changes in Net Assets

For the years ended December 31, 2018 and 2017

(In thousands)

	2018	2017 *(Consolidated)*
Revenue:		
Investment income, net	$ (3,964)	$ 51,810
Other income, net	5	6
Net revenue before excise and income tax benefit (expense)	(3,959)	51,816
Excise and income tax benefit (expense)	253	(1,206)
Net revenue after excise and income tax benefit (expense)	(3,706)	50,610
Expenses:		
Program expenses:		
Grants awarded and direct charitable activities	18,360	17,410
Program-related expenses	3,071	3,103
Total program expenses	21,431	20,513
Management and general expenses	2,152	1,964
Total expenses	23,583	22,477
Change in net assets	(27,289)	28,133
Net assets without donor restrictions, beginning of year	503,804	475,671
Net assets without donor restrictions, end of year	$ 476,515	$ 503,804

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

College Futures Foundation

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(In thousands)

	2018	2017 (Consolidated)
Cash flows from operating activities:		
Change in net assets	$ (27,289)	$ 28,133
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation of fixed assets	378	417
Net realized and unrealized loss (gain) on investments	12,518	(52,607)
Provision for loan losses	(64)	14
Deferred federal excise tax	(668)	899
Changes in operating assets and liabilities:		
Net decrease in other assets	628	76
Net (decrease) increase in accounts payable and accrued liabilities	(90)	59
Net (decrease) increase in grants payable	(3,376)	962
Net cash used in operating activities	(17,963)	(22,047)
Cash flows from investing activities:		
Proceeds from sale of investments	39,542	28,870
Purchases of investments	(17,512)	(14,270)
Net receivables from unsettled trades	(5,500)	8,500
Purchases of property and equipment	(398)	(195)
Net cash provided by investing activities	16,132	22,905
Net (decrease) increase in cash and cash equivalents	(1,831)	858
Cash and cash equivalents, beginning of year	5,099	4,241
Cash and cash equivalents, end of year	$ 3,268	$ 5,099
Noncash financing and investing activities:		
Change in accounts payable related to purchase of property and equipment	$ 729	$ -
Supplemental disclosure of cash flow information:		
Cash paid for excise and income taxes	$ 169	$ 421

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

1. Organization and Business

At College Futures Foundation ("College Futures"), we believe there is nothing more transformative for individuals, our economy, and our society than educational opportunity, and that the pathway to a college degree should be clear and open to the diverse students of California.

College Futures partners with organizations and leaders across the state to catalyze systemic change, increase college degree completion, and close equity gaps so that the vision of a seamless, student-centered educational opportunity becomes a reality—and one that's available to every student, regardless of skin color, zip code, or income.

We are building a shared vision and action plan to leverage all available resources and tools to make the systems change needed for a more prosperous California for everyone:

- By promoting student-centered practices, many more students will be able to transition from K–12 through college efficiently and effectively, with equitable outcomes.
- By informing and motivating key policy and education decision makers to take action, students will benefit from policies that enable their success.
- By creating a stable and sustainable financing system and addressing issues of affordability, degrees will be within reach for all students.

College Futures was launched and funded in 2005 with the proceeds from the wind-down of the nonprofit Chela Education Financing, Inc. As a result of corporate restructurings associated with the wind-down, College Futures held a wholly owned subsidiary, CEFI Corporation ("CEFI"), until December 31, 2017, when CEFI was dissolved.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The accompanying Financial Statements of College Futures are presented on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Revenue is reported as increases in net assets without donor restrictions, unless there are donor-imposed purposes and/or time restrictions on the gifted assets. Expenses are reported as decreases in net assets without donor restrictions. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. At December 31, 2018 and 2017, College Futures had no net assets with donor restrictions. The Financial Statements as of December 31, 2018 include the accounts of College Futures only, while the Financial Statements as of December 31, 2017 include the accounts of College Futures and CEFI. In 2017, all significant inter-entity accounts and transactions were eliminated. As mentioned in Note 1, as of December 31, 2017, CEFI was dissolved.

Continued

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

Cash equivalents consist of demand deposits in banks and money market funds with original maturities of 90 days or less.

Investments

Investments are stated at fair value. Net realized and unrealized gains or losses on investments are reflected as increases or decreases in net assets without donor restrictions. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses are calculated based on purchase prices. Dividend income is recorded on ex-dividend dates. Interest income from investments is recorded on an accrual basis.

Debt and equity securities with readily determinable fair values are carried at estimated fair value, based on quoted market prices. College Futures invests in limited partnerships including diversified inflation hedges, fixed income and bond funds, multi-strategy endowment pools, and private equity funds that may not be immediately liquid nor have readily determinable fair values. These investments are valued at amounts reported to College Futures by the general partners of such entities, in accordance with their established guidelines. Further, management reviews the annual forms K-1, the audited financial statements for the partnerships, reviews investment managers' valuation policies, monitors news in the public domain in connection with its investment managers, meets periodically with investment managers, and participates in quarterly investor calls. Management believes these methods provide a reasonable basis for the fair value. These values may differ significantly from values that would have been used had a readily available market existed for such investments, and the differences could be material.

Net Receivables from Unsettled Trades

Receivables from unsettled trades are amounts due from pending investment redemption requests made before December 31, 2018 and 2017. These trades were settled in January 2019 and January 2018, respectively.

Other Assets, Net

Other assets, net include net student loans receivable, deferred compensation, prepaid expenses, and taxes.

Fixed Assets, Net

College Futures capitalizes all acquisitions for property and equipment in excess of $2,500. Equipment and furnishings are stated at cost and depreciated over three to seven years using the straight-line method. Leasehold improvements are stated at cost and are amortized over the remaining life of the lease.

Continued

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Fair value is defined 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. In determining fair value, College Futures uses various valuation approaches. In accordance with Generally Accepted Accounting Principles ("GAAP"), a hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of College Futures. Unobservable inputs are inputs that reflect College Futures' assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

College Futures classifies its financial assets and liabilities according to the following hierarchy, from (1) highest to (3) lowest in the use of observable inputs, and minimizes the use of unobservable inputs when measuring fair value:

Level 1 – quoted prices in active markets for identical investments. The types of investments in Level 1 include listed equities held in the name of College Futures.

Level 2 – pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. College Futures' assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the investment.

Grants

Unconditional grants are recognized as grant expense and a liability when College Futures' Board of Directors (the "Board") approves the grants or the President and Chief Executive Officer authorizes grants in accordance with Board-approved authority. Unconditional grants that are expected to be paid in less than one year are measured at net settlement value. Unconditional grants that are expected to be paid in more than one year are measured at the present value of the estimated future cash flows. Grant refunds are recorded as a reduction of grant expense at the time College Futures becomes aware the grant will be refunded.

Continued

2. Summary of Significant Accounting Policies, continued

Income Taxes

College Futures is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and Section 23701(d) of the Revenue and Taxation Code of the State of California. Since the beginning of fiscal year 2010, College Futures has been classified as a private foundation within the meaning of Section 509(a) of the Code. As such, College Futures is still exempt from federal income taxes under Section 501(c)(3) of the Code and is exempt from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code. However, College Futures is subject to federal excise taxes as well as federal and state unrelated business income tax.

Prior to its dissolution (see Note 1 and Note 9), as a for-profit Delaware corporation, CEFI used the liability method to account for income taxes. Under this method, deferred income tax assets and liabilities were based on the differences between the financial statement and tax bases of assets and liabilities that would result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances were established when necessary to reduce deferred tax assets to the amount expected to be realized.

College Futures recognizes interest and penalties accrued related to unrecognized tax benefits in "Management and general expenses" on the Statements of Activities and Changes in Net Assets. No interest or penalties have been accrued as of December 31, 2018 and 2017. College Futures follows guidance for the recognition of uncertain tax positions. Management has concluded there are no uncertain tax positions at December 31, 2018 and 2017.

Tax returns will remain open for examination by federal and state taxing authorities for three and four years, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

For comparative purposes, certain amounts in the prior year's Financial Statements have been reclassified to conform to the current year presentation.

Continued

2. Summary of Significant Accounting Policies, continued

Changes in Accounting Principles

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, amending the ASC 958. This update aims to improve net asset classification requirements and the information presented in the financial statements and notes regarding a not-for-profit entity's liquidity, financial performance, and cash flows. The new guidance is effective for College Futures for the year beginning January 1, 2018. College Futures has implemented this guidance in these Financial Statements and Footnotes. Implementation of this guidance resulted in a change in the naming conventions of net assets and additional disclosures surrounding College Futures' functional expense classifications and liquidity. The ASU also eliminated the requirement to present operating cash flows using the indirect reconciliation method if the direct method is chosen.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases*, amending the ASC 842. This update requires lessees to recognize operating and financing lease liabilities and corresponding right-of use assets on the statement of financial position. The new guidance is effective for College Futures beginning January 1, 2021. College Futures is currently evaluating the impact that this guidance will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update changed the criteria for determining whether a contribution is conditional from a probability-based approach to one focused on barriers in an arrangement. For nonpublic entities making contributions, the ASU is effective for annual reporting periods after December 15, 2019 with early adoption permitted. The Foundation is currently evaluating the impact that this guidance will have on its financial statements.

3. Liquidity

College Futures' financial assets available within one year of December 31, 2018 to meet general expenditures include (in thousands):

Cash and cash equivalents	$ 3,268
Fixed income and bond funds	6,757
Balanced global mutual fund	3,695
Redemption ceiling from multi-strategy endowment pool	30,695
Net receivables from unsettled trades	10,500
	$ 54,915

Continued

3. Liquidity, continued

College Futures structures its financial assets to be available and liquid as its grants, general expenditures, liabilities, and other obligations become due. To achieve this, management forecasts its future cash flows, monitors liquidity on a monthly basis, and aggregates liquidity data to inform semi-annual redemption requests from the multi-strategy endowment pool. In addition to the available financial assets listed above, there are likely to be additional components of the investment portfolio that may be available and liquid within one year. These components generally include distributions from private equity and diversified inflation hedge holdings.

4. Fair Value Measurements and Investments

The following tables summarize the valuation of College Futures' assets and liabilities measured on a recurring basis as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Fair value measurements:		
Cash equivalents—money market (Level 1)	$ 842	$ 1,238
Investments:		
Balanced global mutual fund (Level 1)	3,695	3,804
Investments measured using NAV:		
Fixed income and bond funds	6,757	9,123
Multi-strategy endowment pool	438,497	465,869
Diversified inflation hedges	4,565	7,051
Private equity funds	18,524	20,739
Total investments measured using NAV	468,343	502,782
Total investments, at fair value	472,038	506,586
Deferred compensation in mutual funds (Level 1)	444	501
Net receivables from unsettled trades (Level 2)	10,500	5,000
Total assets measured at fair value	$ 483,824	$ 513,325
Deferred compensation liabilities (Level 1)	$ 444	$ 501
Total liabilities measured at fair value	$ 444	$ 501

There were no significant transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy during 2018 and 2017. College Futures recognizes transfers into and out of levels on their respective transaction dates.

Continued

4. Fair Value of Measurements and Investments, continued

College Futures uses NAV to estimate the fair value of underlying investments that a) do not have readily determinable fair values and b) prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. The following table lists investments in other investment companies (in partnership or trust format) by major class as of December 31, 2018 (in thousands):

	Strategy	NAV in Funds	Number of Funds	Remaining Life	Unfunded Commitments	Redemption Notice Period	Redemption Restrictions
Assets:							
Fixed income and bond funds	Short-term fixed income	$ 6,757	1	NA	$ -	10 days	Redemptions only on last business day of any month.
Multi-strategy endowment pool	Multi-strategy[(a)]	438,497	1	NA	-	120 days	Full fund redemptions permitted annually, subject to a 10% holdback and side pockets for illiquid assets. College Futures can redeem up to 7% annually in aggregate during the specified redemption periods. There are no further restrictions on redemptions.
Diversified inflation hedges	Natural resources and real estate	4,565	4	2–6 years	661	NA	NA*
Private equity funds	Venture and buyout U.S. and international	18,524	6	2–7 years	1,501	NA	NA*
Total		$ 468,343			$ 2,162		

* Private equity fund structures with no ability to redeem.

Continued

4. Fair Value Measurements and Investments, continued

(a) The Multi-strategy endowment pool is one fund that includes investments in equities, real assets, commodities, natural resources, credit, fixed income, hedge funds, and direct hedges. Equity investments strategies include long-only and long-biased, public and private equities in both domestic and international markets. Real asset investment strategies include investments in real estate, power, infrastructure, and non-resource real assets. Commodities and natural resources investment strategies are focused on liquid commodities such as metals and agricultural products and private natural resources such as timber and mining interests. Credit investment strategies are primarily non-investment grade and distressed credit. Fixed income investment strategies are United States Treasuries and Treasury Inflation Protected securities, other sovereign debt, and investment grade credit. Hedge fund strategies include those that are event-driven, such as corporate merger activity and the use of long and offsetting short positions. Finally, the strategies for direct hedges include investments in currencies, gold, and options such as puts and calls.

The liquidity profile for the multi-strategy endowment pool is actively managed to maintain sufficient liquidity for limited partners. At December 31, 2018, 55% and 62% of the pool was convertible to cash within one year and three years, respectively, and at December 31, 2017, 56% and 65% of the pool was convertible to cash within one year and three years, respectively.

5. Grants Payable

Future minimum unconditional grants payable as of December 31, 2018 are scheduled as follows (in thousands):

2019	$ 7,360
2020	1,662
2021	207
Total unconditional grants payable	9,229
Less discounts to net present value	(148)
Net unconditional grants payable	$ 9,081

6. Employee Benefits

College Futures sponsors a 403(b) plan to which eligible employees may voluntarily contribute a percentage of their compensation. College Futures also contributes matching amounts. College Futures' 403(b) plan expense was $193,000 and $199,000, respectively, for the years ended December 31, 2018 and 2017. College Futures also provides a contributory money purchase 401(a) plan for all eligible employees. The 401(a) plan is funded by College Futures only. College Futures' 401(a) plan expense was $196,000 and $199,000, respectively, for the years ended December 31, 2018 and 2017. Both plans are maintained by an independent trustee.

Continued

6. Employee Benefits, continued

College Futures also has an unfunded deferred compensation plan for a select group of highly compensated or management level employees under Section 457(b) of the Code. Eligible employees may voluntarily contribute a percentage of their compensation to the plan. In addition, College Futures contributes to the plan on behalf of eligible employees that did not receive their full contributions through the 403(b) or 401(a) plans due to Internal Revenue Service ("IRS") limits covering those plans. At December 31, 2018 and 2017, respectively, College Futures held $444,000 and $501,000 in "Other assets, net" which are designated to pay an offsetting deferred compensation liability that is included in "Accounts payable and accrued liabilities" on the Statements of Financial Position.

7. Excise and Income Taxes

Excise Taxes

In accordance with the applicable provisions of the Code, College Futures is required to distribute 5% of the average fair market value of its investment assets annually. Excess distributions may be carried forward up to 5 years to offset years with distributions below 5%. College Futures met this minimum pay out requirement in each of the years presented in these financial statements.

Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the Code are met) on investment income, excluding unrealized gains. College Futures estimates a 1% rate will be effective in 2018 and paid a 2% rate in 2017. Deferred federal excise taxes arise primarily from unrealized gains on investments and have been accrued based on a 2% rate. If taxes are due, current federal excise taxes payable are included in "Accounts payable and accrued liabilities" on the Statements of Financial Position. Conversely, if a refund is due, these accounts are included in "Other assets, net" on the Statements of Financial Position. For the years ended December 31, 2018 and 2017, current federal excise tax credits were included in "Other assets, net."

The provision for federal excise taxes and unrelated business income taxes at December 31, 2018 and 2017 (in thousands) are:

	2018	2017
Current:		
Excise	$ 192	$ 316
Unrelated business income	223	(9)
Total	415	307
Deferred:		
Excise	(668)	899
Total excise and unrelated business income taxes	$ (253)	$ 1,206

Continued

7. Excise and Income Taxes, continued

Unrelated Business Income Taxes

Unrelated business income taxes arise primarily from income generated from certain types of investments, such as particular kinds of leveraged real estate investments. If taxes are due, federal and state unrelated business income taxes payable are included in “Accounts payable and accrued liabilities” on the Statements of Financial Position. Conversely, if a refund is due, these accounts are included in “Other assets, net” on the Statements of Financial Position. For the years ended December 31, 2018 and 2017, unrelated business income tax balances were included in “Other assets, net,” respectively.

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act incorporates broad and complex changes to the U.S. tax code. The main provision of the Tax Act that is applicable to the Foundation is the reduction of a maximum federal tax rate associated with unrelated business income of 35% to a flat tax rate of 21%, effective January 1, 2018. The Foundation measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, as of December 31, 2017, the Foundation’s deferred tax assets and liabilities were re-measured to reflect the reduction in the income tax rate from 35% to 21%.

As of December 31, 2018, College Futures estimated pre-tax unrelated business income of $2,460,000 and, accordingly, exhausted all federal and state net operating loss carryforwards to offset pre-tax income. As of December 31, 2017, College Futures realized pre-tax unrelated business income of $103,000 and utilized net operating loss carryforwards to offset income.

College Futures’ federal and state deferred tax asset balances are associated with its net operating loss carryforwards. At December 31, 2018 and 2017, deferred tax asset balances amounted to $0 and $471,000, respectively. Based on the available objective evidence at December 31, 2017, College Futures did not believe it was more likely than not that the net deferred tax assets would be fully realizable. Accordingly, College Futures provided a full valuation allowance against its net deferred tax assets at December 31, 2017. However, at December 31, 2018, given the deferred tax asset was fully utilized by income, the valuation allowance decreased by $471,000 to $0. At December 31, 2017, the valuation allowance decreased by $173,000.

Income Taxes

Prior to its dissolution, CEFI realized a pre-tax loss of $(95,000) in 2017. CEFI recognized $800 as income tax expense in 2017 based on California regulatory minimum payment requirements.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As CEFI was dissolved as of December 31, 2017, there are no remaining deferred income taxes to report. In addition, federal and state net operating losses were also eliminated.

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8. Commitments, Contingencies, and Concentrations of Risk

Premises and Equipment Lease Commitments

College Futures leases office space under non-cancelable leases with lease terms expiring in 2019 and 2029, with options to renew. Future minimum lease commitments under the non-cancelable operating leases are (in thousands):

2019	$ 411
2020	480
2021	497
2022	509
2023	524
Thereafter	2,968
Total	$ 5,389

Total rental expense for the years ended December 31, 2018 and 2017 was $269,000 and $264,000, respectively.

Contingencies

From time to time, College Futures may be involved as a party to certain legal proceedings and other claims arising in the normal course of its business. While litigation and claims resolution are subject to many uncertainties and cannot be predicted with assurance, it is management's opinion that any resulting losses would not have a material effect on College Futures' Financial Statements.

Concentrations of Risk

Financial instruments that potentially subject College Futures to credit risk consist primarily of cash, cash equivalents, net receivables from unsettled trades, investments, and student loan receivables. College Futures maintains cash and cash equivalents with two major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation ("FDIC") limits.

College Futures' credit risk is inherent principally in its investments. Adverse economic conditions either nationwide or internationally may result in a reduction of the investments carrying amount. The maximum loss on the investments would be the carrying amount in the Financial Statements. As of December 31, 2018 and 2017, College Futures held investments in excess of the Securities Investor Protection Corporation ("SIPC") insurance limits.

To address investment risk, College Futures maintains a formal investment policy that sets out risk management guidelines, performance criteria, investment and asset allocation guidelines, and requires review of the investment manager's performance. Investments are managed by investment managers who have responsibility for investing the funds in various investment classes. From time to time, an independent investment consultant is also utilized. This entire process is actively overseen by the Investment Committee of the Board.

Continued

9. Dissolution of Subsidiary

As of December 31, 2017, CEFI, a wholly owned subsidiary of College Futures' was wound-down and legally dissolved. All external debts and obligations were paid and retired and a dividend of $158,000 was transferred to College Futures.

10. Analysis of Expenses

College Futures' expenses, where not directly attributable to one function, have been allocated between grantmaking, direct charitable, and management and general activities based on periodic time studies and estimates made by management of time spent by employees on various activities. Grantmaking expenses include grants awarded and program-related expenses that pertain to activities in support of grantmaking and grant-related activities. Direct charitable expenses pertain to charitable activities for the benefit of others initiated and conducted in whole or in part by College Futures. Management and general expenses include costs related to the management and operational support of College Futures. Investment related expenses are included in "Investment income, net" on the Statements of Activities and Changes in Net Assets and accordingly, are not included in the functional expense table below.

College Futures' functional expenses, displayed by natural expense classification, for the year ended December 31, 2018, were as follows (in thousands):

	Program Expenses				
	Grantmaking	Direct Charitable Activities	Total Program Expenses	Management and General	Total
Grants awarded	$ 16,565	$ 1,297	$ 17,862	$ -	$ 17,862
Employee expenses	1,936	260	2,196	1,510	3,706
Professional services	474	-	474	116	590
Occupancy	166	20	186	82	268
Board of directors related expenses	-	-	-	250	250
Depreciation and amortization	178	112	290	88	378
Systems expenses	97	88	185	48	233
Communication expenses	72	-	72	-	72
Other expenses	148	18	166	58	224
Total expenses	$ 19,636	$ 1,795	$ 21,431	$ 2,152	$ 23,583

11. Subsequent Events

College Futures evaluated subsequent events for recognition and disclosure through September 27, 2019, the date that these financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2018 that required recognition or disclosure in the Financial Statements.