

**COLLEGE FUTURES FOUNDATION**

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**FINANCIAL STATEMENTS**

December 31, 2021 and 2020



# COLLEGE FUTURES FOUNDATION

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
College Futures Foundation

### ***Opinion***

We have audited the financial statements of the College Futures Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are issued.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BPM LLP

San Francisco, California  
September 26, 2022

**COLLEGE FUTURES FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**

As of December 31, 2021 and 2020

*(In thousands)*

	2021	2020
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,849	\$ 5,149
Net receivables from unsettled trades	15,000	4,000
Contributions receivable	2,500	-
Fixed assets, net	1,716	2,010
Other assets, net	1,294	1,885
Investments, at fair value	578,056	542,900
Total assets	\$ 607,415	\$ 555,944
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,915	\$ 1,776
Grants payable, net	8,648	9,998
Deferred federal excise tax liability	2,154	2,394
Total liabilities	12,717	14,168
Net assets without donor restrictions	590,848	541,726
Net assets with donor restrictions	3,850	50
Total net assets	594,698	541,776
Total liabilities and net assets	\$ 607,415	\$ 555,944

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, 2021 and 2020

*(In thousands)*

	<u>2021</u>	<u>2020</u>
Income and support without donor restrictions:		
Investment income, net	\$ 77,072	\$ 63,124
Net investment income before excise and income tax expense	77,072	63,124
Excise and income tax expense	<u>(1,397)</u>	<u>(2,615)</u>
Net investment income after excise and income tax benefit	75,675	60,509
Net assets released from restrictions	<u>1,200</u>	<u>2,600</u>
Total income and support	<u>76,875</u>	<u>63,109</u>
Expenses:		
Program expenses:		
Grants awarded and direct charitable activities	21,531	21,626
Program-related expenses	<u>4,031</u>	<u>3,959</u>
Total program expenses	25,562	25,585
Management and general expenses	<u>2,191</u>	<u>2,079</u>
Total expenses	<u>27,753</u>	<u>27,664</u>
Change in net assets without donor restrictions	<u>49,122</u>	<u>35,445</u>
Income and support with donor restrictions:		
Support - contributions	5,000	-
Net assets released from restrictions	<u>(1,200)</u>	<u>(2,600)</u>
Change in net assets with donor restrictions	<u>3,800</u>	<u>(2,600)</u>
Change in net assets	52,922	32,845
Net assets, beginning of year	<u>541,776</u>	<u>508,931</u>
Net assets, end of year	<u>\$ 594,698</u>	<u>\$ 541,776</u>

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

## COLLEGE FUTURES FOUNDATION

### STATEMENTS OF CASH FLOWS

For the years ended December 31, 2021 and 2020

*(In thousands)*

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 52,922	\$ 32,845
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation of fixed assets	307	381
Net realized and unrealized gain on investments	(66,124)	(70,041)
Provision for loan losses	16	8
Loss from sale of fixed assets	-	14
Deferred federal excise tax	(240)	844
Changes in operating assets and liabilities:		
Contributions receivable	(2,500)	2,500
Other assets	575	320
Accounts payable and accrued liabilities	138	190
Grants payable	(1,350)	757
Net cash used in operating activities	(16,256)	(32,182)
Cash flows from investing activities:		
Proceeds from sale of investments	41,689	55,131
Purchases of investments	(10,720)	(26,377)
Net receivables from unsettled trades	(11,000)	6,000
Purchases of property and equipment	(13)	(46)
Net cash provided by investing activities	19,956	34,708
Net increase in cash and cash equivalents	3,700	2,526
Cash and cash equivalents, beginning of year	5,149	2,623
Cash and cash equivalents, end of year	\$ 8,849	\$ 5,149
Supplemental disclosure of cash flow information:		
Cash paid for excise and income taxes	\$ 1,005	\$ 1,430

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

# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

*(In thousands)*

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### 1. Organization and Business

College Futures Foundation (“College Futures”) is a private foundation working to realize an equitable system that creates the opportunity for all of California’s diverse students to pursue the future of their dreams through education.

Established in 2005, College Futures partners with organizations and leaders across the state to catalyze systemic change, increase college degree completion, and close equity gaps so that educational opportunity becomes a reality for every student, regardless of skin color, zip code, or income.

### 2. Summary of Significant Accounting Policies

#### ***Basis of Presentation***

The financial statements of College Futures have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), which require College Futures to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions** – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of College Futures’ management and the Board of Directors.

**Net assets with donor restrictions** – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of College Futures or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

#### ***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.

Continued



# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

*(In thousands)*

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### 2. Summary of Significant Accounting Policies, continued

#### ***Investments***, continued

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, 2021 and 2020. These trades were settled in January 2022 and January 2021, respectively.

#### ***Contributions Receivable***

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue, if applicable. Conditional promises to give are not included as support until the conditions are met.

As of December 31, 2021, College Futures' contributions receivable consisted of unconditional promises to give of \$2,500, which was expected to be collected within one year. As of December 31, 2020, College Futures' contributions receivable balance was zero.

#### ***Fixed Assets, Net***

College Futures capitalizes all acquisitions for property and equipment in excess of \$3. 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.

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# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

*(In thousands)*

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### 2. Summary of Significant Accounting Policies, continued

#### ***Other Assets, Net***

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

#### ***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 U.S. 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.

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# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

*(In thousands)*

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### 2. Summary of Significant Accounting Policies, continued

#### ***Contributions***

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.

#### ***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. Conditional grants are recognized as grant expense in the period in which the recipient meets certain criteria or barriers.

#### ***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.

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, 2021 and 2020. College Futures follows guidance for the recognition of uncertain tax positions. Management has concluded there are no uncertain tax positions at December 31, 2021 and 2020.

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

Continued

# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

(In thousands)

### 2. Summary of Significant Accounting Policies, continued

#### *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.

#### *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. In May 2020, the FASB issued ASU 2020-5, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*, amending the effective dates indicated in ASU 2016-02. The new effective date for this guidance for College Futures is for annual reporting periods beginning after December 15, 2021 with early adoption permitted. College Futures is currently evaluating the impact that this guidance will have on its financial statements.

### 3. Liquidity

College Futures’ financial assets available within one year to meet general expenditures include:

	2021	2020
Cash and cash equivalents	\$ 8,849	\$ 5,149
Fixed income and bond funds	279	13,280
Balanced mutual fund	5,983	5,238
Redemption ceiling from multi-strategy endowment pool	38,786	35,222
Net receivables from unsettled trades	15,000	4,000
Contributions receivable	2,500	-
	<u>\$ 71,397</u>	<u>\$ 62,889</u>

Continued

# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

(In thousands)

### 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Fair value measurements:		
Cash equivalents—money market (Level 1)	\$ 87	\$ 587
Investments:		
Balanced mutual fund (Level 1)	5,983	5,238
Investments measured using NAV:		
Fixed income and bond funds	279	13,280
Multi-strategy endowment pool	554,082	503,166
Diversified inflation hedges	2,674	2,780
Private equity funds	15,038	18,436
Total investments measured using NAV	<u>572,073</u>	<u>537,662</u>
Total investments, at fair value	578,056	542,900
Deferred compensation in mutual funds (Level 1)	727	652
Net receivables from unsettled trades (Level 2)	15,000	4,000
Total assets measured at fair value	<u>\$ 593,870</u>	<u>\$ 548,139</u>
Deferred compensation liabilities (Level 1)	\$ 727	\$ 652
Total liabilities measured at fair value	<u>\$ 727</u>	<u>\$ 652</u>

There were no significant transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy during 2021 and 2020. College Futures recognizes transfers into and out of levels on their respective transaction dates.

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**COLLEGE FUTURES FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2021 and 2020  
*(In thousands)*

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**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, 2021:

	Strategy	NAV in Funds	Number of Funds	Remaining Life	Unfunded Commitments	Redemption Notice Period	Redemption Restrictions
<b>Assets:</b>							
Fixed income and bond funds	Short-term fixed income	\$ 279	1	NA	\$ -	10 days	Redemptions only on last business day of any month.
Multi-strategy endowment pool	Multi-strategy <sup>(a)</sup>	554,082	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	2,674	4	2–4 years	647	NA	NA*
Private equity funds	Venture and buyout U.S. and international	15,038	6	2–5 years	1,113	NA	NA*
Total		<u>\$ 572,073</u>			<u>\$ 1,760</u>		

\* Private equity fund structures with no ability to redeem.

Continued

# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

*(In thousands)*

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### 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, 2021, 50% and 62% of the pool was convertible to cash within one year and three years, respectively, and at December 31, 2020, 56% and 69% 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, 2021 are scheduled as follows:

2022	\$ 7,372
2023	<u>1,360</u>
Total unconditional grants payable	8,732
Less discounts to net present value	<u>(84)</u>
Net unconditional grants payable	<u>\$ 8,648</u>

### 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 \$235 and \$239, respectively, for the years ended December 31, 2021 and 2020. 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 \$237 and \$240, respectively, for the years ended December 31, 2021 and 2020. Both plans are maintained by an independent trustee.

Continued

# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

*(In thousands)*

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### 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, 2021 and 2020, respectively, College Futures held \$727 and \$652 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 federal excise taxes on investment income, excluding unrealized gains. On December 20, 2019, the Consolidated Appropriations Act of 2020 (the “Act”) was signed into law simplifying the application of federal excise taxes on private foundations. The Act eliminated a two-tiered system of excise tax on net investment income and replaced it with a flat excise tax rate of 1.39%. For College Futures, this flat rate was effective January 1, 2020, thus College Futures’ tax rate was 1.39% for the years ended December 31, 2021 and 2020.

Deferred tax items are created when certain income and expense items are accounted for in different time periods for financial statement purposes than for tax purposes. College Futures’ deferred federal excise tax liabilities arise primarily from unrealized gains on investments and are accrued based on a 1.39% 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, 2021 and 2020, current federal excise tax credits were included in “Other assets, net.”

Continued



# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

(In thousands)

### 7. Excise and Income Taxes, continued

#### **Excise Taxes**, continued

The provision for federal excise taxes and unrelated business income taxes at December 31, 2021 and 2020 are:

	<u>2021</u>	<u>2020</u>
Current:		
Excise	\$ 822	\$ 62
Unrelated business income	<u>815</u>	<u>1,709</u>
Total	1,637	1,771
Deferred:		
Excise	<u>(240)</u>	<u>844</u>
Total excise and unrelated business income taxes	<u>\$ 1,397</u>	<u>\$ 2,615</u>

#### **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, 2021 and 2020, unrelated business income tax balances were included in "Other assets, net."

As of December 31, 2021, College Futures estimated pre-tax unrelated business income of \$4,397. As of December 31, 2020, College Futures realized pre-tax unrelated business income of \$2,940 and utilized all net operating loss carryforwards to offset income. Therefore, all deferred tax asset balances and corresponding valuation allowances have been eliminated.

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# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

(In thousands)

### 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:

2022	\$	509
2023		524
2024		540
2025		556
2026		573
Thereafter		<u>1,299</u>
Total	\$	<u>4,001</u>

Total rental expense for the years ended December 31, 2021 and 2020 was \$483 and \$477, 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.

College Futures continues to evaluate the impact of the COVID-19 virus on the Foundation's operations and has concluded that while it is possible that the virus could have a negative effect on the fair value of College Futures' investments, the specific impact is not readily determinable as of the date of these Financial Statements. The Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

#### ***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, 2021 and 2020, College Futures held investments in excess of the Securities Investor Protection Corporation ("SIPC") insurance limits.

Continued

# COLLEGE FUTURES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

*(In thousands)*

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### 8. Commitments, Contingencies, and Concentrations of Risk, continued

#### **Concentrations of Risk**, continued

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.

### 9. Net Assets

Net assets with donor restrictions were \$3,850 and \$50 for December 31, 2021 and 2020, respectively. The restrictions as of December 31, 2021 consist of \$3,600 for re-granting system-level, regional, and organizational capacity building investments and \$250 for indirect costs incurred by College Futures over the remaining life of the grant. The restrictions as of December 31, 2020 consist of \$50 for indirect costs incurred by College Futures over the remaining life of the grant.

Net assets released from net assets with donor restrictions were \$1,200 and \$2,600 for December 31, 2021 and 2020, respectively. The releases from net assets with donor restrictions as of December 31, 2021 consist of the satisfaction of purpose restrictions for \$1,000, as this balance was re-granted for system-level, regional, and organizational capacity building investments, and \$200 for indirect costs incurred by College Futures during the year-ended December 31, 2021. The releases from net assets with donor restrictions as of December 31, 2020 consist of the satisfaction of purpose restrictions for \$2,400, as this balance was re-granted for system-level, regional, and organizational capacity building investments, and \$200 for indirect costs incurred by College Futures during the year-ended December 31, 2020.

### 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.

Continued

## COLLEGE FUTURES FOUNDATION

### NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

*(In thousands)*

#### 10. Analysis of Expenses, continued

College Futures' functional expenses, displayed by natural expense classification, for the year ended December 31, 2021, were as follows:

	Program Expenses			Management and General	Total
	Grantmaking	Direct Charitable Activities	Total Program Expenses		
Grants awarded	\$ 19,838	\$ 1,442	\$ 21,280	\$ -	\$ 21,280
Employee expenses	2,976	119	3,095	1,527	4,622
Professional services	98	-	98	96	194
Occupancy	330	17	347	137	484
Board of directors related expenses	-	-	-	265	265
Depreciation and amortization	210	11	221	87	308
Systems expenses	120	13	133	50	183
Communication expenses	229	88	317	-	317
Other expenses	68	3	71	29	100
	<b>\$ 23,869</b>	<b>\$ 1,693</b>	<b>\$ 25,562</b>	<b>\$ 2,191</b>	<b>\$ 27,753</b>

College Futures' functional expenses, displayed by natural expense classification, for the year ended December 31, 2020, were as follows:

	Program Expenses			Management and General	Total
	Grantmaking	Direct Charitable Activities	Total Program Expenses		
Grants awarded	\$ 19,755	\$ 1,539	\$ 21,294	\$ -	\$ 21,294
Employee expenses	2,915	199	3,114	1,456	4,570
Professional services	171	-	171	91	262
Occupancy	319	28	347	132	479
Board of directors related expenses	-	-	-	225	225
Depreciation and amortization	225	62	287	93	380
Systems expenses	109	37	146	45	191
Communication expenses	128	-	128	-	128
Other expenses	92	6	98	37	135
	<b>\$ 23,714</b>	<b>\$ 1,871</b>	<b>\$ 25,585</b>	<b>\$ 2,079</b>	<b>\$ 27,664</b>

#### 11. Subsequent Events

College Futures evaluated subsequent events for recognition and disclosure through September 26, 2022, the date that these Financial Statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2021 that required recognition or disclosure in the Financial Statements.