

COLLEGE FUTURES FOUNDATION

FINANCIAL STATEMENTS

December 31, 2022 and 2021

COLLEGE FUTURES FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
College Futures Foundation

Opinion

We have audited the financial statements of College Futures Foundation, which comprise the statements of financial position as of December 31, 2022 and 2021, the related statements of activities and changes in net assets, and cash flows for the fiscal 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 College Futures Foundation as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. 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 College Futures 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 U.S. GAAP, 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 College Futures 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 U.S. 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 U.S. 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 College Futures 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 College Futures 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 29, 2023

COLLEGE FUTURES FOUNDATION
STATEMENTS OF FINANCIAL POSITION

As of December 31, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 6,062	\$ 8,849
Net receivables from unsettled trades	13,000	15,000
Contributions receivable	-	2,500
Fixed assets, net	1,443	1,716
Other assets, net	1,989	1,294
Operating lease right-of-use asset, net	2,218	-
Investments, at fair value	<u>481,314</u>	<u>578,056</u>
Total assets	<u>\$ 506,026</u>	<u>\$ 607,415</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,171	\$ 1,915
Grants payable, net	9,073	8,648
Operating lease liability	2,770	-
Deferred federal excise tax liability	<u>1,025</u>	<u>2,154</u>
Total liabilities	<u>14,039</u>	<u>12,717</u>
Net assets without donor restrictions	491,749	590,848
Net assets with donor restrictions	<u>238</u>	<u>3,850</u>
Total net assets	<u>491,987</u>	<u>594,698</u>
Total liabilities and net assets	<u>\$ 506,026</u>	<u>\$ 607,415</u>

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, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Income and support without donor restrictions:		
Investment (loss) income, net	<u>\$ (73,007)</u>	<u>\$ 77,072</u>
Net investment (loss) income before excise and income tax benefit (expense)	(73,007)	77,072
Excise and income tax benefit (expense)	<u>581</u>	<u>(1,397)</u>
Net investment (loss) income after excise and income tax benefit (expense)	(72,426)	75,675
Net assets released from restrictions	<u>3,612</u>	<u>1,200</u>
Total (loss) income and support	<u>(68,814)</u>	<u>76,875</u>
Expenses:		
Program expenses:		
Grants awarded and direct charitable activities	23,488	21,531
Program-related expenses	<u>4,312</u>	<u>4,031</u>
Total program expenses	27,800	25,562
Management and general expenses	<u>2,485</u>	<u>2,191</u>
Total expenses	<u>30,285</u>	<u>27,753</u>
Change in net assets without donor restrictions	<u>(99,099)</u>	<u>49,122</u>
Income and support with donor restrictions:		
Support - contributions	-	5,000
Net assets released from restrictions	<u>(3,612)</u>	<u>(1,200)</u>
Change in net assets with donor restrictions	<u>(3,612)</u>	<u>3,800</u>
Change in net assets	(102,711)	52,922
Net assets, beginning of year	<u>594,698</u>	<u>541,776</u>
Net assets, end of year	<u><u>\$ 491,987</u></u>	<u><u>\$ 594,698</u></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, 2022 and 2021

(In thousands)

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (102,711)	\$ 52,922
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation of fixed assets	281	307
Net realized and unrealized loss (gain) on investments	70,799	(66,124)
Provision for loan losses	37	16
Amortization of right-of-use lease asset	237	-
Deferred federal excise tax	(1,129)	(240)
Changes in operating assets and liabilities:		
Contributions receivable	2,500	(2,500)
Other assets	(733)	575
Accounts payable and accrued liabilities	(120)	138
Grants payable	425	(1,350)
Lease liability	(308)	-
Net cash used in operating activities	(30,722)	(16,256)
Cash flows from investing activities:		
Proceeds from sale of investments	49,167	41,689
Purchases of investments	(23,223)	(10,720)
Net receivables from unsettled trades	2,000	(11,000)
Purchases of property and equipment	(9)	(13)
Net cash provided by investing activities	27,935	19,956
Net (decrease) increase in cash and cash equivalents	(2,787)	3,700
Cash and cash equivalents, beginning of year	8,849	5,149
Cash and cash equivalents, end of year	\$ 6,062	\$ 8,849
Supplemental disclosure of cash flow information:		
Cash paid for excise and income taxes	\$ 1,477	\$ 1,005
Non-cash investing and financing activities:		
Operating lease right-of-use asset obtained in exchange for operating lease liability	\$ 3,078	\$ -

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

COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

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.

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COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

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, 2022 and 2021. These trades were settled in January 2023 and January 2022, 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, 2022 and 2021, College Futures' contributions receivable consisted of unconditional promises to give of \$0 and \$2,500, respectively, which were expected to be collected within one year.

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, 2022 and 2021

(In thousands)

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, 2022 and 2021

(In thousands)

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 and Changes in Net Assets 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. College Futures is a private foundation within the meaning of Section 509(a) of the Code. As such, College Futures is 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, 2022 and 2021. College Futures follows guidance for the recognition of uncertain tax positions. Management has concluded there are no uncertain tax positions at December 31, 2022 and 2021.

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

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COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

2. Summary of Significant Accounting Policies, continued

Leases

College Futures determines if an arrangement is or contains a lease at inception. Leases are included in "Operating lease right-of-use ("ROU") asset" and "Operating lease liability" in the Statement of Financial Position. The obligations associated with leases are recognized as liabilities in the Statement of Financial Position based on future lease payments, discounted using College Futures' incremental borrowing rate. Operating lease expense is recognized on a straight-line basis over the lease term. College Futures does not report ROU assets and lease liabilities for short-term leases (leases with a term of 12 months or less). Instead, lease payments made under short-term leases are reported when the expense is incurred. College Futures does not have any short-term lease contracts (leases with a term of 12 months or less).

Lease terms may include options to extend or terminate certain leases. The value of a lease extension or termination is reflected in the ROU asset and lease liability valuation if it is reasonably certain management will exercise an option to extend or terminate a lease.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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

Effective January 1, 2022, College Futures adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, as amended. This guidance is intended to improve financial reporting of lease transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than 12 months. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. College Futures elected the effective date transition method and the package of practical expedients that permits no reassessment of whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date.

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COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

3. Liquidity

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

	2022	2021
Cash and cash equivalents	\$ 6,062	\$ 8,849
Fixed income and bond funds	1,228	279
Balanced mutual fund	4,972	5,983
Redemption ceiling from multi-strategy endowment pool	32,505	38,786
Net receivables from unsettled trades	13,000	15,000
Contributions receivable	-	2,500
	<u>\$ 57,767</u>	<u>\$ 71,397</u>

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.

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COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

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, 2022 and 2021:

	2022	2021
Fair value measurements:		
Cash equivalents—money market (Level 1)	\$ 98	\$ 87
Investments:		
Balanced mutual fund (Level 1)	4,972	5,983
Investments measured using NAV:		
Fixed income and bond funds	1,228	279
Multi-strategy endowment pool	464,363	554,082
Diversified inflation hedges	1,159	2,674
Private equity funds	9,592	15,038
Total investments measured using NAV	476,342	572,073
Total investments, at fair value	481,314	578,056
Deferred compensation in mutual funds (Level 1)	601	727
Net receivables from unsettled trades (Level 2)	13,000	15,000
Total assets measured at fair value	\$ 495,013	\$ 593,870
Deferred compensation liabilities (Level 1)	\$ 601	\$ 727
Total liabilities measured at fair value	\$ 601	\$ 727

There were no significant transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy during 2022 and 2021. College Futures recognizes transfers into and out of levels on their respective transaction dates.

Continued

COLLEGE FUTURES FOUNDATION
NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

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, 2022 and 2021:

Strategy	2022 NAV in Funds	Number of Funds	2021 NAV in Funds	Number of Funds	2022 Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Fixed income and bond funds:								
Short-term fixed income	\$ 1,228	1	\$ 279	1	\$ -	NA	10 days	Redemptions only on last business day of any month.
Multi-strategy endowment pool:								
Multi-strategy ^(a)	464,363	1	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	1,159	4	2,674	4	491	2–4 years	NA	NA*
Private equity funds:								
Venture and buyout U.S. and international	9,592	6	15,038	6	1,028	2–5 years	NA	NA*
Total	<u>\$ 476,342</u>		<u>\$ 572,073</u>		<u>\$ 1,519</u>			

* Private equity fund structures with no ability to redeem.

Continued

COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

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, 2022, 41% and 53% of the pool was convertible to cash within one year and three years, respectively, and at December 31, 2021, 50% and 62% 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, 2022 are scheduled as follows:

2023	\$ 8,381
2024	775
	<hr/>
Total unconditional grants payable	9,156
Less discounts to net present value	(83)
	<hr/>
Net unconditional grants payable	<u>\$ 9,073</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 \$266 and \$235, respectively, for the years ended December 31, 2022 and 2021. 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 \$266 and \$237, respectively, for the years ended December 31, 2022 and 2021. Both plans are maintained by an independent trustee.

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COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

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, 2022 and 2021, respectively, College Futures held \$601 and \$727 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, at a 1.39% tax rate. College Futures' estimated tax provisions, both current and deferred, are recorded at the 1.39% rate. Adjustments to true-up differences between estimated and actual tax expense are made in each subsequent year following the financial statement date—the year the tax return is filed.

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.

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, 2022 and 2021, current federal excise tax credits were included in "Other assets, net."

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COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(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, 2022 and 2021 are:

	2022	2021
Current:		
Excise	\$ 315	\$ 822
Unrelated business income	233	815
Total	548	1,637
Deferred:		
Excise	(1,129)	(240)
Total excise and unrelated business income taxes	<u>\$ (581)</u>	<u>\$ 1,397</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, 2022 and 2021, unrelated business income tax balances were included in "Other assets, net."

As of December 31, 2022, College Futures estimated pre-tax unrelated business income of \$1,016. As of December 31, 2021, College Futures realized pre-tax unrelated business income of \$4,397.

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COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

8. Commitments, Contingencies, and Concentrations of Risk

Lease Commitments

College Futures leases office space under a non-cancelable operating lease with a lease term expiring in 2029. As of January 1, 2022, College Futures recognized (a) an operating lease ROU asset of \$3,078, which includes \$623 of lease incentive, and (b) an operating lease liability of \$3,078, which represents the present value of the remaining lease payments of approximately \$4,000, discounted using College Futures' incremental borrowing rate of 7.5%. During the year ended December 31, 2022, \$237 of operating lease ROU asset amortization was recognized resulting in an operating lease ROU asset balance at December 31, 2022 of \$2,218. During the year ended December 31, 2022, \$308 of operating lease liability accretion was recognized resulting in an operating lease liability balance at December 31, 2022 of \$2,770.

The non-cancelable operating lease includes a five-year extension, available at College Futures' option, which College Futures is not reasonably certain to exercise. Therefore, the payments associated with the extension are not included in the operating lease ROU asset or operating lease liability recognized as of December 31, 2022.

Future minimum lease commitments under the non-cancelable operating leases are:

2023	\$ 524
2024	540
2025	556
2026	573
2027	590
Thereafter	<u>709</u>
Total undiscounted cash flows	3,492
Less present value discount	<u>(722)</u>
Total lease liability, net	2,770
Current portion	<u>327</u>
Long-term portion	<u><u>\$ 2,443</u></u>

Total rental expense for the years ended December 31, 2022 and 2021 was \$506 and \$483, respectively.

Continued

COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

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

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, 2022 and 2021, 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.

9. Net Assets

Net assets with donor restrictions were \$238 and \$3,850 for December 31, 2022 and 2021, respectively. The restrictions as of December 31, 2022 consist of \$152 for re-granting system-level, regional, and organizational capacity building investments and \$86 for indirect costs incurred by College Futures over the remaining life of the grant. The restrictions as of December 31, 2021 consisted 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.

Continued

COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(In thousands)

9. Net Assets, continued

Net assets released from net assets with donor restrictions were \$3,612 and \$1,200 for December 31, 2022 and 2021, respectively. The releases from net assets with donor restrictions as of December 31, 2022 consist of the satisfaction of purpose restrictions for \$3,448, as this balance was re-granted for system-level, regional, and organizational capacity building investments, and \$164 for indirect costs incurred by College Futures during the year-ended December 31, 2022. 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.

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, 2022, were as follows:

	Program Expenses				
	Grantmaking	Direct Charitable Activities	Total Program Expenses	Management and General	Total
Grants awarded	\$ 21,548	\$ 1,657	\$ 23,205	\$ -	\$ 23,205
Employee expenses	3,202	192	3,394	1,543	4,937
Professional services	165	-	165	324	489
Occupancy	347	18	365	142	507
Board of directors related expenses	-	-	-	292	292
Depreciation and amortization	192	10	202	79	281
Systems expenses	114	11	125	47	172
Communication expenses	138	48	186	-	186
Other expenses	154	4	158	58	216
Total expenses	<u>\$ 25,860</u>	<u>\$ 1,940</u>	<u>\$ 27,800</u>	<u>\$ 2,485</u>	<u>\$ 30,285</u>

Continued

COLLEGE FUTURES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

(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
Total expenses	<u>\$ 23,869</u>	<u>\$ 1,693</u>	<u>\$ 25,562</u>	<u>\$ 2,191</u>	<u>\$ 27,753</u>

11. Subsequent Events

College Futures evaluated subsequent events for recognition and disclosure through September 29, 2023, the date that these Financial Statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2022 that required recognition or disclosure in the Financial Statements.