



The Rancho Santa Fe Foundation

Consolidated Financial Statements
For the Year Ended December 31, 2021
With Summarized Financial Information for 2020



The Rancho Santa Fe Foundation

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Independent Auditors' Report

To the Audit Committee
The Rancho Santa Fe Foundation
Rancho Santa Fe, California

Opinion

We have audited the consolidated financial statements of **The Rancho Santa Fe Foundation** (“the Foundation”), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated 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 consolidated financial statements are available to be issued.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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.

Report on Summarized Comparative Information

We have previously audited **The Rancho Santa Fe Foundation's** 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 13, 2021. In our opinion, the summarized comparative information herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

San Diego, California
May 19, 2022

The Rancho Santa Fe Foundation

Consolidated Statements of Financial Position

(Rounded to the nearest thousandth)

With Summarized Financial Information for 2020

December 31,

Assets	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Cash and cash equivalents	\$ 1,373,000	\$ 1,286,000	\$ 2,659,000	\$ 2,163,000
Investments	59,101,000	56,977,000	116,078,000	105,250,000
Assets held for other agencies	46,966,000	-	46,966,000	39,325,000
Assets held under unitrust agreement	343,000	58,000	401,000	392,000
Contributions receivable	-	437,000	437,000	422,000
Other assets	33,000	-	33,000	26,000
Total assets	<u>\$ 107,816,000</u>	<u>\$ 58,758,000</u>	<u>\$ 166,574,000</u>	<u>\$ 147,578,000</u>
Liabilities and Net Assets				
Liabilities:				
Accrued expenses	\$ 300,000	\$ -	\$ 300,000	\$ 68,000
Grants payable, net	1,773,000	-	1,773,000	2,324,000
Deferred revenue	81,000	-	81,000	-
Liability under unitrust agreement	343,000	-	343,000	340,000
Due to other agencies	46,966,000	-	46,966,000	39,325,000
Total liabilities	<u>\$ 49,463,000</u>	<u>\$ -</u>	<u>\$ 49,463,000</u>	<u>\$ 42,057,000</u>
Net Assets:	<u>\$ 58,353,000</u>	<u>\$ 58,758,000</u>	<u>\$ 117,111,000</u>	<u>\$ 105,521,000</u>
Total Net Assets and Liabilities	<u>\$ 107,816,000</u>	<u>\$ 58,758,000</u>	<u>\$ 166,574,000</u>	<u>\$ 147,578,000</u>

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

The Rancho Santa Fe Foundation

Consolidated Statements of Activities

(Rounded to the nearest thousandth)

With Summarized Financial Information for 2020

Years ended December 31,

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Revenue, earnings (losses), and other support:				
Gifts and bequests	\$ 8,628,000	\$ 532,000	\$ 9,160,000	\$ 8,265,000
Program grants	-	2,550,000	2,550,000	-
Net investment earnings	6,160,000	6,608,000	12,768,000	12,820,000
Interfund transfers	(571,000)	571,000	-	-
Change in value of split interest agreement	-	57,000	57,000	43,000
Impairment of asset held for sale	-	-	-	(1,290,000)
Program service fee revenue	45,000	-	45,000	-
Management fee revenue	336,000	-	336,000	280,000
	<u>\$ 14,598,000</u>	<u>\$ 10,318,000</u>	<u>\$ 24,916,000</u>	<u>\$ 20,118,000</u>
Net assets released from restriction	<u>3,682,000</u>	<u>(3,682,000)</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	<u>\$ 18,280,000</u>	<u>\$ 6,636,000</u>	<u>\$ 24,916,000</u>	<u>\$ 20,118,000</u>
Expenses:				
Program grants	\$ 11,946,000	\$ -	\$ 11,946,000	\$ 11,610,000
Operating and administrative expenses	1,380,000	-	1,380,000	1,304,000
Total expenses	<u>\$ 13,326,000</u>	<u>\$ -</u>	<u>\$ 13,326,000</u>	<u>\$ 12,914,000</u>
Change in net assets	\$ 4,954,000	\$ 6,636,000	\$ 11,590,000	\$ 7,204,000
Net assets at beginning of year	<u>\$ 53,399,000</u>	<u>\$ 52,122,000</u>	<u>\$ 105,521,000</u>	<u>\$ 98,317,000</u>
Net assets at end of year	<u><u>\$ 58,353,000</u></u>	<u><u>\$ 58,758,000</u></u>	<u><u>\$ 117,111,000</u></u>	<u><u>\$ 105,521,000</u></u>

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

The Rancho Santa Fe Foundation

Consolidated Statements of Functional Expenses

(Rounded to the nearest hundredth)

With Summarized Financial Information for 2020

Years ended December 31,

	Program Services		Supporting Services		2021	2020
	Grants	Other	Fundraising	General and	Total	Total
		Program		Administrative		
Program grants	\$ 11,945,600	\$ -	\$ -	\$ -	\$ 11,945,600	\$ 11,610,000
Salaries	-	149,900	236,800	396,500	783,200	776,700
Rent	-	23,800	23,800	23,800	71,400	68,800
Employee benefits	-	14,700	16,400	39,100	70,200	74,800
Payroll taxes	-	11,000	17,400	29,100	57,500	51,000
Information technology	-	900	-	55,100	56,000	65,400
Consulting services	-	-	-	48,300	48,300	50,800
Accounting	-	1,200	1,900	40,200	43,300	45,000
Legal	-	-	-	36,600	36,600	4,900
Community events	-	-	-	31,200	31,200	-
Insurance	-	500	900	26,400	27,800	25,200
Dues and subscriptions	-	8,900	8,400	8,500	25,800	25,600
Common area charges	-	7,800	7,800	7,800	23,400	22,500
Marketing and public relations	-	-	23,000	-	23,000	14,400
Meetings	-	13,200	-	7,800	21,000	10,100
Office expense	-	9,400	5,400	5,500	20,300	19,500
Utilities	-	4,900	5,000	4,900	14,800	14,900
Depreciation	-	-	-	8,900	8,900	10,200
Bank service charges	-	-	-	3,300	3,300	2,500
Travel	-	-	-	3,200	3,200	3,100
Equipment lease	-	1,000	1,000	1,000	3,000	2,600
Donor development	-	100	2,400	-	2,500	5,500
Miscellaneous taxes	-	-	-	1,900	1,900	2,100
Postage and shipping	-	600	700	600	1,900	1,700
Printing and reproduction	-	400	400	500	1,300	2,700
Professional development	-	-	-	600	600	3,800
Interest expense	-	-	-	-	-	200
Total Expenses	\$ 11,945,600	\$ 248,300	\$ 351,300	\$ 780,800	\$ 13,326,000	\$ 12,914,000
% of Total Admin Expenses	90%	2%	3%	5%	100%	

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

The Rancho Santa Fe Foundation

Consolidated Statements of Cash Flows

(Rounded to the nearest thousandth)

Years ended December 31,

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 11,590,000	\$ 7,204,000
Adjustments and reclassifications to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized net gain on investments	(10,979,000)	(10,794,000)
Contribution of stock and securities	(5,211,000)	(3,093,000)
Contributions restricted for long-term purposes	(3,000)	(7,000)
Depreciation/accumulated lease amortization	10,000	13,000
Change in value of split interest agreements	(51,000)	(37,000)
Change in value of liability under unitrust agreement	(3,000)	(6,000)
Change in value of contribution receivable	-	1,290,000
Increase/(decrease) in cash resulting from changes in:		
Contributions receivable	36,000	(51,000)
Assets held under unitrust agreement	9,000	12,000
Other assets	(7,000)	115,000
Accrued expenses	234,000	(17,000)
Grants payable, net	(551,000)	(493,000)
Deferred revenue	81,000	-
Assets held for other agencies	7,641,000	6,499,000
Net cash provided by operating activities	<u>2,796,000</u>	<u>635,000</u>
Cash flows from investing activities:		
Purchases of investments	(108,613,000)	(72,774,000)
Proceeds from sale of investments	106,328,000	73,124,000
Purchases of equipment	(17,000)	(7,000)
Net cash provided by (used in) investing activities	<u>(2,302,000)</u>	<u>343,000</u>
Cash flows from financing activities:		
Investment in permanent endowment	3,000	7,000
Payments on capital lease obligation	(1,000)	(3,000)
Net cash provided by financing activities	<u>2,000</u>	<u>4,000</u>
Net increase in cash and cash equivalents	496,000	982,000
Cash and cash equivalents at beginning of year	2,163,000	1,181,000
Cash and cash equivalents at end of year	<u>\$ 2,659,000</u>	<u>\$ 2,163,000</u>

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

The Rancho Santa Fe Foundation

Notes to Consolidated Financial Statements

(1) Organization and Significant Accounting Policies

(a) Organization

The Rancho Santa Fe Foundation (“the Foundation”), formerly the Rancho Santa Fe Community Foundation, is a public charity founded in 1981 created to improve community life through increased philanthropy. The Foundation administers charitable gifts, including permanent endowments, from which grants are made to not-for-profit organizations for community betterment.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Foundation and the supporting Charitable Special Assets Fund. All inter-company accounts and transactions have been eliminated.

(c) Method of Accounting

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

(d) Basis of Presentation

In order to accommodate the various alternatives for donors’ distribution objectives, the Foundation’s records are maintained for internal purposes in accordance with the principles of fund accounting. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. The Foundation follows authoritative guidance for financial statements for Not-for-Profit Organizations. This guidance requires that net assets, revenue, gains, expenses, and losses be classified as without donor restrictions or with donor restrictions.

A summary of the net asset categories included in the accompanying consolidated financial statements is as follows:

Net Assets Without Donor Restrictions— Net assets available for general use and not subject to donor restrictions. Net assets without donor restrictions include amounts that are available for support of the Foundation’s operational and administrative functions, discretionary non-advised amounts that are available to support community activities and charitable endeavors at the discretion of the Foundation’s Board of Directors, and discretionary donor-advised amounts for which grant recommendations of the respective donors are accepted for consideration, subject to final approval by the Foundation’s Board of Directors.

The Rancho Santa Fe Foundation

Notes to Consolidated Financial Statements

(d) Basis of Presentation, cont'd

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are contingent upon a specific performance of a future event or a specific passage of time before the Foundation may spend the funds. The balance includes contributions receivable and deferred gifts in the form of trusts and annuities to funds with donor restrictions, term endowments and unappropriated earnings on permanently restricted endowments.

Other donor-imposed restrictions are perpetual in nature, the original dollar value is to remain in perpetuity as a permanent endowment of the Foundation.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and 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. Expirations of donor-imposed restrictions on net assets, such as the donor stipulated time period has elapsed, are reported as “net assets released from restriction” between the classes of net assets.

(e) Summarized Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset classification and are presented to provide a basis for comparison to financial information for 2021. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation’s consolidated financial statements for 2020, from which the summarized information was derived.

(f) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturities, when acquired, of three months or less.

Per a grant agreement, the Foundation is required to maintain grant funds in a separate bank account that totaled \$1,338,000 at December 31, 2021.

(g) Concentration of Credit Risk

The Foundation invests its excess cash in various types of marketable securities and money market funds. The Foundation has established guidelines relative to diversification and maturities that maximize safety and liquidity within acceptable risk levels. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Foundation maintains a cash account at a bank in San Diego. The balance in the account at this institution may at times, exceed the amount secured by the Federal Deposit Insurance Corporation. The Foundation has not experienced any losses in this account. Management believes that the Foundation is not exposed to any significant credit risk with respect to its cash and cash equivalents.

The Rancho Santa Fe Foundation

Notes to Consolidated Financial Statements

(g) Concentration of Credit Risk, cont'd

The Foundation invests in various investment securities, including U.S. government securities, corporate debt and equity securities. Investment securities, in general, are subject to various risks, such as interest rate, credit and overall market volatility. ***Due to the level of risk associated with*** certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

(h) Concentration of Revenue

During 2021, the Foundation received three significant contributions that combined approximated 47% of total gifts and bequests. These contributions were additions to donor advised funds without donor restrictions.

(i) Investments

Investments consist of marketable securities. Marketable securities consist of mutual funds which are carried at fair value. Fair value is determined by quoted market prices on the last business day of the year.

Investments acquired by gift are recorded at their fair market value at the date of the gift. The Foundation's policy is to liquidate all gifts of investment immediately upon receipt.

Net investment earnings (losses) reported in the Statements of Activities consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

(j) Assets Held Under Unitrust Agreement

In 2015, the Foundation received a charitable remainder trust designating the Foundation as trustee and charitable remainder beneficiary. Under the terms of the trust agreement, the Foundation makes distributions to income beneficiaries for the life of the beneficiaries. Upon the death of the income beneficiaries, 50% of assets remaining in the trust will be distributed to a nonprofit beneficiary and the final 50% remaining interest will be transferred to the Foundation to an established permanent endowment. Assets held in this charitable remainder trust totaled \$401,000 at December 31, 2021 are reported at fair market value based on current quoted market prices on the statement of financial position as Assets held under unitrust agreement. On an annual basis, the Foundation revalues the liability based on actuarial assumptions. The present value of the estimated future payments (\$343,000 at December 31, 2021) is calculated using a discount rate of 5% and recent life expectancy tables.

The Rancho Santa Fe Foundation

Notes to Consolidated Financial Statements

(k) Split-Interest Gifts

The Foundation is a beneficiary of a certain trust fund held by others and has recorded an asset for the net present value of the estimated future amount to be received from such trust included in contributions receivable at December 31, 2021. The charitable remainder trust is an irrevocable trust established in connection with a split-interest agreement, in which the donor or a third-party beneficiary receives specified distributions during the agreement's term. Upon termination of the trust, the Foundation will receive a portion of the assets remaining in the trust. The present value is calculated by using recent life expectancy tables and a discount rate of 1.60% as of December 31, 2021.

(l) Depreciation

Fixed assets are depreciated using the straight-line method over the estimated useful lives of the related assets. Tenant improvements are depreciated over the lesser of the useful life of the related asset or the lease term. The Foundation capitalizes all assets with a useful life greater than one year and a cost greater than \$500.

(m) Assets Held for Other Agencies

The Foundation receives contributions on behalf of unaffiliated not-for-profit agencies, which are not reflected in the Foundation's statement of activities as they do not represent revenue to the Foundation. The total amounts of these managed assets are however reported as offsetting assets and liabilities on the Foundation's statement of financial position. At December 31, 2021, the total amount of these monies held for other agencies was \$46,966,000.

(n) Grant Expenditures

Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At December 31, 2021, there was one 3-year grant payable which was discounted using the year-end risk free rate of 1.89%.

(o) Functional Allocation of Expenses

Functional expenses are those expenses incurred by the Foundation in the accomplishment of its stated mission. They can be categorized further as follows:

- Program services, including awarded grants, services to other non-profits, philanthropic leadership and civic leadership;
- Fundraising and development, including originating and maintaining relationships with donors; and
- Management and general, including expenses that benefit the Foundation as an entity and the management and accounting of funds.

The Rancho Santa Fe Foundation

Notes to Consolidated Financial Statements

(o) Functional Allocation of Expenses, cont'd

The cost of providing the various program and supporting services have been summarized on a functional basis in the Statement of Functional Expenses. This statement presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Personnel expenses are allocated based on time and effort.

(p) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these consolidated financial statements include those assumed in computing the estimated future cash flow of deferred gifts and unitrust liabilities and the allocation of common expenses over program functions.

(q) Income Tax Status

The Foundation is exempt from income taxes under the current provisions of Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Franchise Tax Code. The Foundation, however, may be subject to tax on income which is not related to its exempt purpose. The Foundation had no unrelated business income tax for the year ended December 31, 2021.

At December 31, 2021, the federal statute of limitations remains open for 2018 through 2021 years. The statute of limitations for the state income tax returns remains open for the 2017 through 2021 years.

(r) Earnings on Discretionary Funds

Discretionary funds are maintained within the investment portfolio. Interest, dividends, and unrealized gains and losses in the investment pools are allocated monthly to the discretionary funds in proportion to each fund's share in the investment pools.

(s) Fair Value Measurements

The Foundation measures fair value at the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange.

The Rancho Santa Fe Foundation

Notes to Consolidated Financial Statements

(s) Fair Value Measurements, cont'd

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the instrument.

The Foundation endeavors to utilize the best available information in measuring fair value. The following table summarizes the valuation of the financial instruments in accordance with the guidance's pricing levels as of December 31, 2021. There were no Level 2 financial instruments.

	Total	Unadjusted Quoted Market Prices (Level 1)	Unobservable Inputs (Level 3)
Money market funds	\$ 622,000	\$ 622,000	\$ -
Mutual funds:			
Domestic equities	68,724,000	68,724,000	-
Fixed income	33,186,000	33,186,000	-
Money market	16,164,000	16,164,000	-
REITS	8,609,000	8,609,000	-
Foreign equities	35,025,000	35,025,000	-
Charitable remainder trusts	384,000	-	384,000
Liability under unitrust agreement	(343,000)	-	(343,000)
Totals	<u>\$ 162,371,000</u>	<u>\$ 162,330,000</u>	<u>\$ 41,000</u>

Changes in Level 3 financial instruments during 2021 were as follows:

	Charitable Remainder Trusts	Liability Under Unitrust Agreement
Financial instruments, beginning of year	\$ 333,000	\$ (340,000)
Change in value of existing split-interest agreements	51,000	6,000
Total gains (realized and unrealized)	-	(48,000)
Distributions	-	39,000
Financial instruments, end of year	<u>\$ 384,000</u>	<u>\$ (343,000)</u>

The Rancho Santa Fe Foundation

Notes to Consolidated Financial Statements

(s) Fair Value Measurements, cont'd

The following table represents the Foundation's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values
Charitable remainder trusts	\$ 384,000	Present value of beneficial interests	Discount Rate	1.6%
			Growth Rate	7.11%
			Payout Rate	6.0%
			Years remaining	13.4
Liability under unitrust agreement	\$ (343,000)	Present value of future distributions	Discount Rate	5.0%
			Growth Rate	5.0%
			Payout Rate	8.9%
			Years remaining	14.2

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. At least annually, Management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

(2) Liquidity and Availability

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Investing exclusively in short-term liquid assets such as mutual funds, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term grant commitments and obligations under endowments with donor restrictions that support mission fulfillment will be met, ensuring the sustainability of the Foundation.

The Foundation's board-designated endowments and those endowments that have been donor-designated for discretionary grantmaking are subject to an annual spending rate of 5.0%. A spendable amount of \$309,000 will be made available for grantmaking and administrative expenses from these endowments during 2022.

The Rancho Santa Fe Foundation

Notes to Consolidated Financial Statements

(2) Liquidity and Availability, Cont'd

The table below presents the financial assets available for general expenditures within one year at December 31, 2021:

Cash and cash equivalents	\$ 1,373,000
Contributions receivable	53,000
Short-Term Investments	59,101,000
Long-Term Investments made available for current use	309,000
	<u>\$ 60,836,000</u>

(3) Investments

Marketable Securities

Marketable securities consist of the following at December 31, 2021:

Mutual funds:	
Domestic equities	\$ 68,724,000
Fixed income	33,186,000
Money market	16,164,000
Real estate investment trusts	8,609,000
Foreign equities	35,025,000
Total investments	<u>161,708,000</u>
Less investments held for other agencies	(45,229,000)
Less assets held under unitrust agreement	(401,000)
	<u>\$ 116,078,000</u>

(4) Contributions Receivable

Contributions receivable at December 31, 2021, reported as a component of net assets with donor restrictions, totaled \$437,000. Of this total, \$53,000 is considered receivable in less than one year and is a result of year-end cash and stock contributions initiated in 2021 but not physically received by the Foundation until after January 1, 2022. The remaining \$384,000 represents the net present value of proceeds from a split-interest agreement to be received at an undetermined time in the future.

(5) Other Assets

Other assets consist of the following at December 31, 2021:

Fixed assets, net of accumulated depreciation of \$133,000	\$ 29,000
Prepaid expenses	4,000
	<u>\$ 33,000</u>

The Rancho Santa Fe Foundation

Notes to Consolidated Financial Statements

(6) Assets Held for Other Agencies

The amount held for other agencies as of December 31, 2021 consists of the following:

Investments	\$ 45,229,000
Cash and cash equivalents	1,730,000
Gifts Receivable	7,000
	<u>\$ 46,966,000</u>

(7) Grants Payable

Future grant payments as of December 31, 2021 are as follows:

<u>Year Ending December 31,</u>	<u>Amount Payable</u>
2022	\$ 628,000
2023	600,000
2024	600,000
Total	<u>\$ 1,828,000</u>
Less discount to reflect future grants payable at present value	(55,000)
	<u>\$ 1,773,000</u>

Grants payable are discounted using a rate of 1.89%.

(8) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at December 31, 2021:

Perpetually restricted	\$ 36,584,000
Charitable remainder trust	384,000
Time restricted	13,398,000
Purpose restricted	8,221,000
Term endowment	171,000
	<u>\$ 58,758,000</u>

(9) Endowment Net Asset Classifications

The Foundation's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as permitting the expenditure or accumulation of as much of permanent endowment funds as the Foundation determines to be prudent for the uses, benefits, purposes and duration for which each endowment fund is established, even if this results in the occasional invasion of an endowment's historic gift value. Thus, at times, the value of donor-restricted assets may fall below the level that a donor requires the Foundation to maintain in perpetuity. At December 31, 2021, deficiencies of this nature existed in one (1) such donor-restricted endowment fund, which has an original gift value of \$14,000, a current fair value of \$13,000, and a deficiency of \$1,000. This deficit resulted from unfavorable market fluctuations that occurred in the second half of 2015 after this fund was opened and the decision of the fund holder to move the fund balance to cash at that time. As of the publication of these statements this fund remains "underwater" by \$1,000.

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(9) Endowment Net Asset Classifications, Cont'd

The Foundation retains in perpetuity (a) the original value of gifts used to establish permanent endowments, (b) the original value of subsequent gifts to permanent endowments and (c) any accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift and instrument at the time the accumulation is added to the fund; collectively known as historic gift value. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Foundation manages one donor-restricted endowment fund with a time stipulation. Distributions from this endowment are made annually to a specific charity until the earlier of 20 years (2027) or until the assets in the fund are depleted.

The Foundation classifies as endowment net assets without donor restrictions as those that reside in endowment funds that have been established by and for the discretionary use of the Foundation.

The Foundation determines the appropriation of each endowment fund's assets for expenditure based upon the Foundation's adopted spending policy.

- The Foundation's basic endowment spending policy shall be to annually distribute up to the maximum allowable percentage as stated in the original Fund agreement (typically 5% plus administrative fees) from each endowed Fund. To determine the distributable amount for a given year, the specified percentage will be applied to the Fund's average value calculated over a twelve quarter period beginning with the most recent December 31st quarter-end (or fewer quarters where a Fund has not been in existence for a full twelve quarters).
- Unless there is specific wording in the original fund agreement clearly stating that the distribution formula called for in the fund agreement shall apply irrespective of the historic gift value of the fund (i.e. the cumulative total of all gifts), then the payout from an endowment fund may be limited per the following criteria if a fund's average value falls below the average historic gift value for the same twelve-quarter period:
 - Distributing amount(s) not to exceed the fund(s) earnings from the prior four quarters;
 - A temporary cessation of distributions from some or all fund(s) to protect the historic gift value or principal of the fund(s);
 - Reducing the distributable percentage from some or all fund(s) to something less than the permitted maximum(s) per the following table:

Average Fund Value as a Percent of Average Historic Gift Value	Spending Rate
90 – 99%	75% of normal spending rate
80 – 89%	50% of normal spending rate
70 – 79%	25% of normal spending rate
< 70%	Suspend distributions

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(9) Endowment Net Asset Classifications, Cont'd

Although UPMIFA no longer requires that permanent endowments (absent donor advice) be maintained at historic gift value, it is generally accepted that UPMIFA contemplates that “endowed funds will be interpreted to be of permanent duration, and that investments and spending practices should be structured in such a way as to preserve their purchasing power over time”. With this understanding, the primary goals of the Foundation’s investment policy are to ensure a total return necessary to preserve and enhance the principal of the funds and to provide a dependable source of revenue for current and future needs. To achieve these objectives, the Foundation’s portfolio will be administered with a moderate level of risk, accepting some volatility in principal while attempting to grow the portfolio over time. The investment policy directs the managers for a target allocation for the portfolio that approximates 50% to 70% invested in equity securities and the remainder of the portfolio in fixed income and other securities. At a minimum, an annual rebalancing will be administered to bring the portfolio back in line with the asset allocation model.

Endowment Net Asset Composition by Type of Fund as of December 31, 2021

	<u>Without</u> <u>Donor</u> <u>Restrictions</u>	<u>With</u> <u>Donor</u> <u>Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 974,000	\$ -	\$ 974,000
Donor-restricted endowment funds:			
Original donor-restricted gift amount(s) and amounts required to be maintained in perpetuity	-	36,526,000	36,526,000
Accumulated gains	-	13,520,000	13,520,000
Total endowment funds	<u>\$ 974,000</u>	<u>\$ 50,046,000</u>	<u>\$ 51,020,000</u>

Changes in Endowment Net Assets for the year ended December 31, 2021

	<u>Without</u> <u>Donor</u> <u>Restrictions</u>	<u>With</u> <u>Donor</u> <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 891,000	\$ 45,524,000	\$ 46,415,000
Gifts, bequests & transfers	12,000	81,000	93,000
Change in value of unitrust agreement	-	6,000	6,000
Total investment return	110,000	5,846,000	5,956,000
Amounts appropriated for expenditure	(39,000)	(1,411,000)	(1,450,000)
Endowment net assets, end of year	<u>\$ 974,000</u>	<u>\$ 50,046,000</u>	<u>\$ 51,020,000</u>

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Notes to Consolidated Financial Statements

(10) Real Estate

The Foundation holds title to a 22-acre parcel of undeveloped land in Rancho Santa Fe which is to be held by the Foundation in perpetuity as open space. The value of this parcel has not been included within the accompanying consolidated financial statements as the land has no recognizable value due to the nature of the restrictive circumstances under which it is held.

(11) Charitable Special Assets Fund

The Rancho Santa Fe Foundation Charitable Real Estate Fund (“CREF”) was established in February 2007 for the purpose of helping donors become impactful philanthropists through gifts of real estate and other illiquid assets. The CREF received its IRS Determination Letter in January 2008. In 2020 the CREF changed its name to the Rancho Santa Fe Foundation Charitable Special Assets Fund (“CSAF”) to better reflect the purpose of the fund.

(12) Benefit Plan

The Foundation sponsors a 401(k) savings plan for all eligible employees. Participants may contribute up to 86% of their eligible compensation. The Foundation matches 100% of the first 5% of the participant’s eligible compensation. Total matching contributions were \$34,000 in 2021.

(13) Operating Leases

During 2013, the Foundation signed a standard operating lease that expired in October 2018, which included an increase of 4% per annum. During 2014, the Foundation signed an amendment to that lease for an adjacent office space under similar terms and with the same expiration date. In 2018 the Foundation signed a 5-year extension to this lease with the same 4% per annum increases. The Foundation incurred rent expense of approximately \$72,000 in 2021. Future minimum rental payments under this operating lease are as follows:

<u>Year Ending December 31,</u>	<u>Lease Amount</u>
2022	\$ 74,000
2023	64,000
Total	<u>\$ 138,000</u>

(14) CARES Act / PPP Loan

The Foundation received a Paycheck Protection Program (PPP) loan of \$118,000 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans are considered conditional contributions, with a right-of-return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the funds. The Foundation recognized the amount received as grant revenue as qualified expenses occurred / barriers to entitlement were met. The Foundation submitted its application for PPP loan forgiveness on December 22, 2020 and the U.S. Small Business Administration (SBA) approved the Foundation’s application for PPP loan forgiveness on February 26, 2021.

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Notes to Consolidated Financial Statements

(15) Subsequent Events

The Foundation has evaluated subsequent events through May 19, 2022, which is the date the consolidated financial statements were issued.