

THE CARMEL FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2021 AND 2020

AND INDEPENDENT AUDITORS' REPORT

THE CARMEL FOUNDATION

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INDEPENDENT AUDITORS' REPORT

**To the Board of Directors
The Carmel Foundation
Carmel, California**

Report on the Financial Statements

We have audited the accompanying financial statements of *The Carmel Foundation*, which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***The Carmel Foundation*** as of June 30, 2021 and 2020, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

December 7, 2021
Salinas, CA

THE CARMEL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

| <u>ASSETS</u> | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,776,361 | \$ 886,111 |
| Pledges receivable | 41,648 | 48,656 |
| Bequests receivable | 469,195 | 1,090,183 |
| Beneficial interest in split-interest agreements | 1,423,435 | 520,127 |
| Prepaid expenses and other assets | <u>31,509</u> | <u>28,967</u> |
| Total current assets | 3,742,148 | 2,574,044 |
| Investments | 14,880,267 | 11,943,190 |
| Property and equipment, net | 3,612,505 | 3,813,213 |
| Donated land lease, net | <u>744,328</u> | <u>786,940</u> |
| TOTAL ASSETS | <u>\$ 22,979,248</u> | <u>\$ 19,117,387</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 26,234 | \$ 41,575 |
| Accrued liabilities and deposits | 132,426 | 128,697 |
| Refundable advance | <u>273,840</u> | <u>273,000</u> |
| Total liabilities | <u>432,500</u> | <u>443,272</u> |
| Net Assets: | | |
| Unrestricted | 6,998,969 | 6,616,522 |
| Board designated | 11,640,351 | 8,384,508 |
| Without donor restrictions | <u>18,639,320</u> | <u>15,001,030</u> |
| Temporarily restricted | 2,651,958 | 2,417,615 |
| Permanently restricted | 1,255,470 | 1,255,470 |
| With donor restrictions | <u>3,907,428</u> | <u>3,673,085</u> |
| Total net assets | <u>22,546,748</u> | <u>18,674,115</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 22,979,248</u> | <u>\$ 19,117,387</u> |

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | | | 2020 | | |
|---|----------------------------|-------------------------|----------------------|----------------------------|-------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| REVENUE, GAINS AND OTHER SUPPORT: | | | | | | |
| Investment return - net | \$ 2,775,832 | \$ 358,318 | \$ 3,134,150 | \$ 180,899 | \$ 22,613 | \$ 203,512 |
| Bequests and contributions | 424,647 | 484,195 | 908,842 | 372,454 | 1,112,182 | 1,484,636 |
| Program service fees | 142,383 | - | 142,383 | 108,443 | - | 108,443 |
| Membership contributions | 216,888 | - | 216,888 | 229,205 | - | 229,205 |
| Senior housing rental income | 355,195 | - | 355,195 | 365,508 | - | 365,508 |
| Change in value of split-interest agreements | - | 903,308 | 903,308 | - | (155,186) | (155,186) |
| In kind donation – land lease | - | 77,388 | 77,388 | - | 77,388 | 77,388 |
| Grant revenue | 270,876 | - | 270,876 | 231,525 | - | 231,525 |
| Special Event Income | 39,290 | - | 39,290 | 11,020 | - | 11,020 |
| Other income | 11,201 | - | 11,201 | 20,268 | - | 20,268 |
| Net assets released from restrictions | 1,588,866 | (1,588,866) | - | 402,391 | (402,391) | - |
| Total revenue, gains and other support | 5,825,178 | 234,343 | 6,059,521 | 1,921,713 | 654,606 | 2,576,319 |
| EXPENSES: | | | | | | |
| Program services: | | | | | | |
| Senior housing rentals | 656,170 | - | 656,170 | 690,597 | - | 690,597 |
| Meal program expense | 350,382 | - | 350,382 | 355,495 | - | 355,495 |
| Other program services | 318,306 | - | 318,306 | 590,464 | - | 590,464 |
| Total program services | 1,324,858 | - | 1,324,858 | 1,636,556 | - | 1,636,556 |
| Support services: | | | | | | |
| General and administrative | 663,325 | - | 663,325 | 793,649 | - | 793,649 |
| Fundraising | 198,705 | - | 198,705 | 286,802 | - | 286,802 |
| Total support services | 862,030 | - | 862,030 | 1,080,451 | - | 1,080,451 |
| Total expenses | 2,186,888 | - | 2,186,888 | 2,717,007 | - | 2,717,007 |
| CHANGES IN NET ASSETS | 3,638,290 | 234,343 | 3,872,633 | (795,294) | 654,606 | (140,688) |
| NET ASSETS, BEGINNING OF YEAR | 15,001,030 | 3,673,085 | 18,674,115 | 15,796,324 | 3,018,479 | 18,814,803 |
| NET ASSETS, END OF YEAR | \$ 18,639,320 | \$ 3,907,428 | \$ 22,546,748 | \$ 15,001,030 | \$ 3,673,085 | \$ 18,674,115 |

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | | | | | | | 2020 | | | | | | |
|---|-------------------|-------------------|-------------------|------------------------------|-------------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|------------------------------|-------------------------------|-------------------|---------------------|
| | Program Services | | | | Support Services | | | Program Services | | | | Support Services | | |
| | Senior Housing | Meal Programs | Other Programs | Total Program Services | General and Administrative | Fundraising | Total | Senior Housing | Meal Programs | Other Programs | Total Program Services | General and Administrative | Fundraising | Total |
| Salaries – general | \$ 63,591 | \$ 136,078 | \$ 59,697 | \$ 259,366 | \$ 251,592 | \$ 28,926 | \$ 539,884 | \$ 42,399 | \$ 150,084 | \$ 129,906 | \$ 322,389 | \$ 298,336 | \$ 71,236 | \$ 691,961 |
| Employee benefits - general | 11,314 | 37,619 | 50,939 | 99,872 | 41,395 | 16,168 | 157,435 | 8,574 | 47,814 | 48,905 | 105,293 | 60,354 | 17,534 | 183,181 |
| Payroll taxes and worker's comp - general | 7,484 | 17,254 | 7,036 | 31,774 | 19,149 | 2,703 | 53,626 | 5,387 | 16,563 | 12,393 | 34,343 | 22,939 | 5,831 | 63,113 |
| Salaries – supervision | 87,373 | 43,379 | 94,663 | 225,415 | - | 96,446 | 321,861 | 83,802 | 33,779 | 183,579 | 301,160 | - | 96,248 | 397,408 |
| Employee benefits – supervision | 17,115 | 7,098 | 18,524 | 42,737 | - | 18,637 | 61,374 | 12,934 | 6,230 | 32,465 | 51,629 | - | 17,353 | 68,982 |
| Payroll taxes and workers' comp – supervision | 9,619 | 4,175 | 10,678 | 24,472 | - | 8,050 | 32,522 | 8,936 | 3,012 | 17,818 | 29,766 | - | 7,885 | 37,651 |
| Total salaries and related expenses | 196,496 | 245,603 | 241,537 | 683,636 | 312,136 | 170,930 | 1,166,702 | 162,032 | 257,482 | 425,066 | 844,580 | 381,629 | 216,087 | 1,442,296 |
| Depreciation | 135,072 | 2,198 | 939 | 138,209 | 70,183 | - | 208,392 | 143,476 | 2,995 | 997 | 147,468 | 71,375 | - | 218,843 |
| Repairs and maintenance | 23,960 | 5,898 | 24 | 29,882 | 39,968 | - | 69,850 | 83,566 | 9,404 | 863 | 93,833 | 74,427 | - | 168,260 |
| Utilities and security | 102,155 | 3,771 | - | 105,926 | 45,123 | - | 151,049 | 96,178 | 275 | - | 96,453 | 54,340 | - | 150,793 |
| Donated rent | 120,000 | - | - | 120,000 | - | - | 120,000 | 120,000 | - | - | 120,000 | - | - | 120,000 |
| Food and meals | - | 85,507 | 748 | 86,255 | 15 | - | 86,270 | - | 77,682 | 9,740 | 87,422 | - | - | 87,422 |
| Service contracts | 1,579 | 4,513 | - | 6,092 | 62,366 | - | 68,458 | 3,646 | 3,426 | 1,426 | 8,498 | 61,391 | - | 69,889 |
| Insurance | 53,116 | - | - | 53,116 | 17,591 | - | 70,707 | 58,223 | - | - | 58,223 | 19,922 | - | 78,145 |
| Financial assistance | - | 597 | 46,990 | 47,587 | - | - | 47,587 | - | 1,691 | 91,203 | 92,894 | - | 220 | 93,114 |
| Professional fees | - | - | - | - | 48,797 | - | 48,797 | - | - | - | - | 45,325 | 299 | 45,624 |
| Miscellaneous | 57 | 434 | 9,962 | 10,453 | 16,359 | 3,521 | 30,333 | 505 | 1,132 | 12,054 | 13,691 | 27,854 | 5,102 | 46,647 |
| Postage and printing | - | - | 177 | 177 | 1,485 | 6,735 | 8,397 | - | - | 2,706 | 2,706 | 2,975 | 27,622 | 33,303 |
| Tour program | - | - | - | - | - | - | - | - | - | 14,386 | 14,386 | - | - | 14,386 |
| Supplemental property taxes | 22,907 | - | - | 22,907 | 12,468 | - | 35,375 | 22,229 | - | - | 22,229 | 12,000 | - | 34,229 |
| Other program | - | 85 | 3,001 | 3,086 | - | 6,905 | 9,991 | - | - | 4,990 | 4,990 | - | 17,217 | 22,207 |
| Office supplies | - | 681 | 7,515 | 8,196 | 8,295 | 4,604 | 21,095 | - | 398 | 15,063 | 15,461 | 13,951 | 5,924 | 35,336 |
| Telecommunications | 828 | 890 | 2,575 | 4,293 | 22,302 | 481 | 27,076 | 742 | 1,010 | 5,311 | 7,063 | 20,320 | 503 | 27,886 |
| Member activities | - | - | 403 | 403 | 3,749 | 480 | 4,632 | - | - | 1,281 | 1,281 | 5,523 | 380 | 7,184 |
| Marketing materials | - | - | - | - | - | - | - | - | - | - | - | - | 7,336 | 7,336 |
| Donor recognition | - | - | - | - | - | 5,003 | 5,003 | - | - | - | - | - | 5,667 | 5,667 |
| Training and conferences | - | 205 | - | 205 | 365 | - | 570 | - | - | 1,816 | 1,816 | 398 | 222 | 2,436 |
| Automobile | - | - | 16 | 16 | 1,120 | 46 | 1,182 | - | - | 591 | 591 | 1,391 | 223 | 2,205 |
| Library | - | - | 12 | 12 | - | - | 12 | - | - | 1,838 | 1,838 | - | - | 1,838 |
| Fundraising | - | - | 4,407 | 4,407 | 1,003 | - | 5,410 | - | - | 1,133 | 1,133 | 828 | - | 1,961 |
| Total expenses | \$ 656,170 | \$ 350,382 | \$ 318,306 | 1,324,858 | \$ 663,325 | \$ 198,705 | \$ 2,186,888 | \$ 690,597 | \$ 355,495 | \$ 590,464 | 1,636,556 | \$ 793,649 | \$ 286,802 | \$ 2,717,007 |

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 3,872,633 | \$ (140,688) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Donated land lease | 120,000 | 120,000 |
| Amortization of donated land lease | (77,388) | (77,388) |
| Depreciation | 208,392 | 218,843 |
| Change in value of split-interest agreements | (903,308) | 155,186 |
| (Increase) decrease in: | | |
| Pledges receivable | 7,008 | (47,141) |
| Bequests receivable | 620,988 | (833,554) |
| Prepaid expenses and other assets | (2,542) | (1,783) |
| Increase (decrease) in: | | |
| Accounts payable | (15,341) | (9,222) |
| Accrued liabilities and deposits | 3,729 | 3,624 |
| | <u>3,834,171</u> | <u>(612,123)</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Refundable advance | <u>840</u> | <u>273,000</u> |
| | <u>840</u> | <u>273,000</u> |
| NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales of investments | 1,010,037 | 1,263,321 |
| Purchases of investments | (3,947,114) | (573,549) |
| Proceeds from sale of property and equipment | - | 1,999 |
| Purchases of property and equipment | <u>(7,684)</u> | <u>(58,575)</u> |
| | <u>(2,944,761)</u> | <u>633,196</u> |
| NET CASH PROVIDED USED IN INVESTING ACTIVITIES | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 890,250 | 294,073 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>886,111</u> | <u>592,038</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 1,776,361</u> | <u>\$ 886,111</u> |

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020
(Continued)

| | <u>2021</u> | <u>2020</u> |
|--|---------------|-------------------|
| NONCASH INVESTING AND FINANCING ACIVITIES: | | |
| Refundable advance | \$ 273,840 | \$ 273,000 |
| Forgiveness of debt | 273,000 | - |
| Net | <u>\$ 840</u> | <u>\$ 273,000</u> |

See Notes to Financial Statements.

THE CARMEL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – The Carmel Foundation (the Foundation) is a California non-profit public benefit corporation established in 1950. The Foundation is committed to increasing the comfort, happiness and sense of well-being of the senior residents of the Monterey Peninsula. The Foundation is a membership Foundation that provides low-cost housing for eligible seniors, transportation, prepared meals and a variety of programs, classes, and activities from its facilities in Carmel.

Basis of Accounting and Presentation – The accompanying financial statements are presented using the accrual basis of accounting in accordance with generally accepted accounting principles. The net assets, revenues, gains and losses, and other support, expenses and other changes in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Foundation and changes therein are classified as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. This includes any amounts designated by the Board for certain purposes.
- **Net Assets With Donor Restrictions** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

Recognition of Donor Restrictions – Support that is restricted by the donor is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, (that is, when a stipulated time restriction ends or the purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as “net assets released from restriction.”

Cash and Cash Equivalents – The Foundation considers all short-term investments with an original maturity at the date of purchase of three months or less to be cash equivalents for purposes of the statement of cash flows. Cash and cash equivalents include demand deposit accounts, money market accounts, and cash on hand.

Fair Value of Financial Instruments – The Foundation’s financial instruments, including cash equivalents, pledges receivable, bequest receivables, accounts payable, and accrued liabilities are carried at cost, which approximates their fair value due to the short-term maturity of these instruments.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable – Unconditional promises to give are recognized as revenue in the period received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional. No allowance has been recorded for uncollectible promises to give, as management believes all amounts to be collectible. All unconditional promises to give are expected to be received within one year and have not been discounted.

Bequests Receivable – Bequests are recognized as revenue once the Foundation has received notification and a reasonably estimated valuation has been received from the executor of the estate.

Investments – The Foundation initially records investments purchased at cost. Investments with readily determinable fair values are measured at fair market value in the statement of financial position. The fair values are based on quoted market prices. The fair value of investments held in pooled funds is calculated as a net asset value per share (or equivalent) as investors hold fund shares rather than individual securities. Gains and losses on disposition of investments are accounted for using the specific identification method. Net realized and unrealized gains and losses are included in the statement of activities.

Unconditional Promises to Give – 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 over periods in excess of one year are recorded at the present value of the estimated cash flows beyond one year. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Property and Equipment – Property and equipment are recorded at cost, and donated property and equipment is recorded at estimated fair value on the date contributed to the Foundation. The Foundation typically capitalizes items costing or valued at \$5,000 or more with an estimated useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets:

| | |
|-------------------------|---------------|
| Buildings | 25 – 50 Years |
| Furniture and equipment | 3 – 10 Years |
| Vehicles | 5 – 7 Years |

Expenditures for maintenance and repairs are charged to expense as incurred. Renewals or betterments of significant items are capitalized. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is recognized.

Assets donated with explicit restrictions regarding their use and contributions of cash that are restricted to property and equipment purchases are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets are to be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk – The Foundation maintains deposits and investments at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for the years ended June 30, 2021 and 2020.

The Foundation maintains cash in bank accounts at various financial institutions. The balance, at times, exceeds federally insured limits. The amount in excess of FDIC insurance at June 30, 2021 and June 30, 2020 were \$1,010,581 and \$291,433 respectively.

The Foundation's investments are exposed to various risks, such as fluctuations in the market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that the changes in the values of investment securities will occur in the near future and that such changes could materially affect the amounts reported in the statement of activities.

Revenue and Revenue Recognition – The Foundation recognizes membership dues, which are nonrefundable, as a component of a change element based on the value of benefits provided and a contribution element for the difference between the total dues paid and the exchange element. The Foundation recognizes the exchange portion of the membership dues over the membership period and the contribution portion immediately. The Foundation records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

The Foundation recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Revenues derived from sales of food and beverages and programs are recognized as the goods and services are delivered to the buyer.

Income Taxes – As a tax-exempt not-for-profit Foundation, the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state franchise tax under California Revenue and Taxation Code Section 23701(d), but is subject to taxes on unrelated business income when earned.

Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt Foundation tax returns are more likely than not to be sustained upon examination. The Foundation's returns are subject to examinations by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Donated Services – Donated services are not recorded unless such services create or enhance non-financial assets or require specialized skills and are so essential that they would be purchased if not provided by donation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fundraising Costs – The Foundation incurs fundraising costs as contribution revenues and are almost entirely from its members. The Foundation incurred fundraising expenses of \$198,543 and \$286,802 for the years ended June 30, 2021 and 2020, respectively.

Functional Allocation of Expenses – The costs of providing program services and other activities have been presented on a functional basis in the Statement of Activities. Expenses relating to more than one function are allocated based on employee time, expense studies or other appropriate usage factors.

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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications – Certain prior year amounts have been reclassified to conform with the current year financial statement presentation.

Subsequent Events – Subsequent events have been evaluated through December 7, 2021, which is the date the financial statements were available to be issued.

Effects of New Accounting Pronouncements – The Foundation has adopted Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)*, as amended as management believes the standard improves the usefulness and understandability of the Foundation's financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Foundation recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, amending ASC 820. This update modifies the disclosure requirements on fair value measurements primarily around Level 3 investments. The new guidance is effective for the Foundation beginning July 1, 2020. This standard was adopted by the Foundation during fiscal year 2021 but did not have a significant impact to the Foundation and the accompanying financial statements.

Recent Accounting Pronouncements – On February 25, 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Non-public entities are required to adopt the standard for reporting periods beginning after December 15, 2021. All entities may elect to early-adopt. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. This will significantly gross-up many entities balance sheets. The Foundation has no plan for early implementation of this Statement. At this time the Foundation is not certain of the effect the adoption of ASU 2016-02 will have on the accompanying financial statements.

NOTE 2. FAIR VALUE MEASUREMENTS

The Foundation measures its assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. Assets recorded at fair value in the statement of position are categorized upon the level of judgement associated with the inputs used to measure their fair value.

Level inputs are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial statement.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurements.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTE 2. FAIR VALUE MEASUREMENTS (Continued)

Fair value of assets measures on a recurring basis at June 30 are as follows:

| ASSETS | 2021 | | | |
|--|---------------------|---------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments | \$ 10,338,614 | \$ 203,282 | \$ – | \$ 10,541,896 |
| Investments held in pooled funds | <u>–</u> | <u>4,338,371</u> | <u>–</u> | <u>4,338,371</u> |
| Subtotal | 10,338,614 | 4,541,653 | – | 14,880,267 |
| Beneficial interest in split-interest agreements valued at net asset value | <u>–</u> | <u>–</u> | <u>–</u> | <u>1,423,435</u> |
| Total | <u>\$10,338,614</u> | <u>\$ 4,541,653</u> | <u>\$ –</u> | <u>\$ 16,303,702</u> |

| ASSETS | 2020 | | | |
|--|---------------------|---------------------|-------------|----------------------|
| | Fair Value | Level 2 | Level 3 | Total |
| Investments | \$ 7,615,107 | \$ 193,362 | \$ – | \$ 7,808,469 |
| Investments held in pooled funds | <u>–</u> | <u>4,134,721</u> | <u>–</u> | <u>4,134,721</u> |
| Subtotal | 7,615,107 | 4,328,083 | – | 11,943,190 |
| Beneficial interest in split-interest agreements valued at net asset value | <u>–</u> | <u>–</u> | <u>–</u> | <u>520,127</u> |
| Total | <u>\$ 7,615,107</u> | <u>\$ 4,328,083</u> | <u>\$ –</u> | <u>\$ 12,463,317</u> |

Fair value for Level 1 investments are based upon quoted market price. Inputs are obtained from various sources including market participants, dealers, brokers and financial institutions.

Fair value for Level 2 investments are determined by reference to quoted market prices for similar investments, yield curves, and other relevant information, except for the investments held in pooled funds, which calculates a net asset value per share (or equivalent) as investors hold fund shares rather than individual securities.

NOTE 2. FAIR VALUE MEASUREMENTS (Continued)

Fair value for Level 3 utilizes the key input of a discount rate to convert the expected future cash flows from the trusts to a single present value amount. The Foundation utilizes an estimated discount rate at June 30, 2021 and develops measurement criteria based on the best information possible. The Foundation remeasures the fair value of its beneficial interest in a charitable remainder trust annually and adjusts the measurement inputs based on the statements received from the trustee, market conditions, and other relevant data.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 3. BEQUESTS RECEIVABLE

The Foundation has been named a beneficiary in certain wills. All bequests receivable are expected to be received within one year and have not been discounted. Bequests receivable consist of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|----------------------------|-------------------|---------------------|
| Pedersen Trust | \$ 2,000 | \$ 2,500 |
| Vance Trust | – | 56,514 |
| Gump Trust | – | 56,125 |
| Singhaus Estate | – | 9,819 |
| Shreve Estate | – | 13,344 |
| Mary Boyken Trust | 375,832 | 950,000 |
| Benedict Trust | – | 1,881 |
| Estate of Margaret Shipley | 1,241 | – |
| Pope/Evans Trust | 59,900 | – |
| Babb Trust | 22,505 | – |
| Pyburn Trust | <u>7,717</u> | <u>–</u> |
| Total | <u>\$ 469,195</u> | <u>\$ 1,090,183</u> |

NOTE 4. BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENTS

The Foundation is a remainderman beneficiary under the terms of the Entis 2015 Charitable Remainder Unitrust. The assets of the trust are in no way subject to the control of the Foundation at this time during the years ended June 30, 2021 and 2020. The charitable remainder unitrust agreement stipulates that certain amounts are to be paid to the trust's beneficiaries from the trust's net fair value until such time that the trust is terminated. The market value of the trust assets was approximately \$4,267,029 and \$3,037,355 at June 30, 2021 and 2020, respectively.

The value of the assets to be received from this trust is recorded at the estimated net present value of the assets to be received. The amount was \$1,423,435 and \$520,127 at June 30, 2021 and 2020, respectively, and is calculated based on estimates of future earnings and payouts during the estimated remaining life expectancy of the beneficiaries and discounting back the calculated future amount to be received.

The primary assumptions used in these calculations are as follows:

- The rate of appreciation on the trust assets is based on current market conditions, annual returns of 4.46% and 1.84% for June 30, 2021 and 2020, respectively.
- The life expectancies of the beneficiaries are assumed to be those in IRS publication 590 dated December 2020.
- The discount factor used is the average of the U.S. Treasury Rate and the unsecured lending rate for the period of time at the date of valuation which was 6.76% and 7.97% at June 30, 2021 and 2020, respectively.

NOTE 5. INVESTMENTS

Investments are managed by outside managers under the direction and oversight of Management and the Finance Committee of the Board of Directors. The Finance Committee determines the asset allocation formula and places limitations on the types of investments the managers may purchase.

Investments restricted by the donor for endowment purposes are recorded as with donor restrictions based on the original amount of the gift. Dividends and interest on such endowment assets are reflected as an increase in without donor restrictions or with donor restrictions based on the intentions stipulated by the donor.

Investments consist of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------|----------------------|----------------------|
| Marketable equity securities | \$ 10,338,614 | \$ 7,615,107 |
| Marketable debt securities - bond | 203,282 | 193,362 |
| Pooled funds | <u>4,338,371</u> | <u>4,134,721</u> |
| Total | <u>\$ 14,880,267</u> | <u>\$ 11,943,190</u> |

NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|---------------------|---------------------|
| Buildings | \$ 7,696,371 | \$ 7,688,687 |
| Furniture and equipment | 623,159 | 623,159 |
| Land | 461,029 | 461,029 |
| Vehicles | <u>26,964</u> | <u>26,964</u> |
| Total | 8,807,523 | 8,799,839 |
| Less accumulated depreciation | <u>5,195,018</u> | <u>4,986,626</u> |
| Property and equipment, net | <u>\$ 3,612,505</u> | <u>\$ 3,813,213</u> |

Depreciation and amortization expense was \$208,392 and \$218,843 for the years ended June 30, 2021 and 2020, respectively.

NOTE 7. DONATED LAND LEASE, NET

The Foundation is the beneficiary of a land lease from the City of Carmel-by-the-Sea for a term of 50 years that will expire in 2038 for an annual payment of \$1, which was paid in advance. Under the terms of the land lease, the Foundation provides low-cost housing to eligible seniors. An unconditional promise to give has been recorded to reflect the value of the donated rent received from the city of Carmel-by-the-Sea. The annual amount of donated rent recorded was \$120,000 for the years ended June 30, 2021 and 2020 and was determined by spreading the estimated fair market value of the land (\$6,000,000) over the term of the agreement. The future estimated value of the rents over the remaining life of the agreement is recorded as an unconditional promise to give, which has been discounted to its present value. The amount of amortization recorded as support was \$77,388 for the years ended June 30, 2021 and 2020.

Unconditional promise to give at June 30 was as follows:

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| Receivable in less than one year | \$ 120,000 | \$ 120,000 |
| Receivable in one to five years | 604,338 | 604,338 |
| Receivable in more than five years | <u>1,335,619</u> | <u>1,455,619</u> |
| Total unconditional promise to give donated land lease | 2,059,957 | 2,179,957 |
| Less discount to net present value | <u>1,315,629</u> | <u>1,393,017</u> |
| Donated land lease, net | <u>\$ 744,328</u> | <u>\$ 786,940</u> |

The discount rate used was 5%.

NOTE 8. REFUNDABLE ADVANCES

The Foundation received \$273,840 and \$273,000 of funding under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration for the years ended June 30, 2021 and June 30, 2020, respectively. The loan accrues interest at 1% but payments are not required to begin until the date that SBA remits the borrower's loan forgiveness amount to the lender. The Foundation received forgiveness on Round 1 of the PPP funding and recorded the funding as a contribution. The Foundation anticipates that they will be eligible for loan forgiveness of up to 100% of the Round 2 funding of the PPP loan, upon meeting certain requirements. The Loan is uncollateralized and is fully guaranteed by the Federal government. The Foundation has determined to record the loan as a refundable advance in accordance with the guidance in ASC 958-605 in which the loan proceeds would be considered a conditional contribution until they are forgiven.

NOTE 9. NET ASSETS WITHOUT DONOR RESTRICTIONS

During the years ended June 30, 2021 and 2020, the Board of Directors of the Foundation designated unrestricted amounts to be held for special purposes. Board designated net assets were as follows at June 30:

| | <u>2021</u> | <u>2020</u> |
|------------------------------|----------------------|---------------------|
| Investments | \$ 9,174,284 | \$ 6,049,331 |
| Capital Campaign | 1,563,635 | 1,563,635 |
| Fundraising | 750,747 | 620,912 |
| Maintenance Fund - Norton Ct | 74,008 | 74,008 |
| Needlecraft Fund | 45,731 | 44,340 |
| Thompson Fund | 30,596 | 30,932 |
| Direct mail appeals | <u>1,350</u> | <u>1,350</u> |
| Total | <u>\$ 11,640,351</u> | <u>\$ 8,384,508</u> |

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Subject to expenditure for specific purpose or passage of time: | | |
| Land lease* | \$ 744,328 | \$ 786,940 |
| Split-interest agreements* | 1,423,435 | 520,127 |
| Pledge receivable* | 15,000 | 20,365 |
| Bequest receivable* | <u>469,195</u> | <u>1,090,183</u> |
| Subtotal | \$ 2,651,958 | \$ 2,417,615 |
| Endowments held in perpetuity: | | |
| Donor-restricted endowment | <u>1,255,470</u> | <u>1,255,470</u> |
| Total | <u>\$ 3,907,428</u> | <u>\$ 3,673,085</u> |

*These balances in net assets with donor restrictions represent time restrictions that have not yet been met.

During the course of the year, net asset that were subject to donor-imposed restrictions were fulfilled by action of the Foundation pursuant to those restrictions. These net assets are shown in the State of Activities as "Net Assets released from restriction." The detail of the net asset released from restrictions at June 30 is as follows:

| | <u>2021</u> | <u>2020</u> |
|----------------------|---------------------|-------------------|
| Land lease | \$ 120,000 | \$ 120,000 |
| Time restriction met | 1,090,183 | 256,629 |
| Endowment earnings | 358,318 | 22,613 |
| Village project | <u>20,365</u> | <u>3,149</u> |
| Total | <u>\$ 1,588,866</u> | <u>\$ 402,391</u> |

NOTE 11. ENDOWMENTS

The Foundation's endowment consists of approximately four individual funds established for general operations. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

| | <u>2021</u> | <u>2020</u> |
|------------------|---------------------|---------------------|
| Greene endowment | \$ 1,170,529 | \$ 1,170,529 |
| Herud endowment | 50,000 | 50,000 |
| Seideneck fund | 33,941 | 33,941 |
| Aurner fund | <u>1,000</u> | <u>1,000</u> |
| Total | <u>\$ 1,255,470</u> | <u>\$ 1,255,470</u> |

NOTE 11. ENDOWMENTS (Continued)

Interpretation of Relevant Law – The Foundation’s Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not held in perpetuity under net asset with donor restrictions is classified as net assets with donor restrictions that are restricted by purpose until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Spending Policy – The Foundation has a policy of appropriating for distribution all investment earnings from the endowments as designated by its donors.

Investment Policy – In order to maximize the earnings of the endowment funds, all of the endowments have been invested in various equity and debt securities and money market funds in line with the investment policy of the Foundation.

Endowment Net Asset Composition

Endowment net asset composition as of June 30:

NOTE 11. ENDOWMENTS (Continued)

As of June 30, 2021 and 2020, we had the following endowment net asset composition by type of fund:

| | <u>With Donor Restrictions</u> | <u>Total</u> |
|----------------------------------|--|---------------------|
| <u>June 30, 2021</u> | | |
| Donor-restricted endowment funds | <u>\$ 1,255,470</u> | <u>\$ 1,255,470</u> |
| | <u>\$ 1,255,470</u> | <u>\$ 1,255,470</u> |
| | | |
| | <u>With Donor Restrictions</u> | <u>Total</u> |
| <u>June 30, 2020</u> | | |
| Donor-restricted endowment funds | <u>\$ 1,255,470</u> | <u>\$ 1,255,470</u> |
| | <u>\$ 1,255,470</u> | <u>\$ 1,255,470</u> |

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30:

| | <u>2021</u> | |
|--|---------------------------------------|---------------------|
| | <u>With Donor Restriction</u> | <u>Total</u> |
| Balance at Beginning of Year | \$ 1,255,470 | \$ 1,255,470 |
| Investment return - net | 358,318 | 358,318 |
| Appropriation of endowment assets for expenditure | <u>(358,318)</u> | <u>(358,318)</u> |
| Balance at End of Year | <u>\$ 1,255,470</u> | <u>\$ 1,255,470</u> |
| | | |
| | <u>2020</u> | |
| | <u>With Donor Restriction</u> | <u>Total</u> |
| Balance at Beginning of Year | \$ 1,255,470 | \$ 1,255,470 |
| Investment return - net | 27,029 | 27,029 |
| Appropriation of endowment assets for expenditure | <u>(27,029)</u> | <u>(27,029)</u> |
| Balance at End of Year | <u>\$ 1,255,470</u> | <u>\$ 1,255,470</u> |

NOTE 12. LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position.

| | |
|---|-------------------------|
| Pledges receivable | \$ 41,648 |
| Bequests receivable | 469,195 |
| Prepaid expenses and other assets | 31,509 |
| Investments | <u>4,450,513</u> |
| Total assets available for operations | <u>\$ 4,992,865</u> |

The Foundation’s governing board has designated a portion of its unrestricted assets in the amount of \$11,640,351. Most of the fund balance is invested for long-term appreciation and current income but remain available and may be spent for operations at the discretion of the board.

NOTE 13. RETIREMENT PLANS

The Foundation maintains a 403(b) plan, which is available to full-time employees that have attained the age of twenty-one and have no less than one year of service with the Foundation. The Foundation matches the employees’ contributions at 4% of compensation. Retirement plan contributions charged to expense were \$22,034 and \$27,186 for the years ended June 30, 2021 and 2020, respectively.

NOTE 14. COMMITMENTS

The Foundation leases various copiers under noncancelable operating leases. The Foundation also has an agreement for information technology support from a third-party contractor. Future minimum payments required at June 30, 2021 are as follows:

| | |
|-----------|----------------------|
| 2022 | \$ 36,767 |
| 2023 | 4,007 |
| 2024 | 3,579 |
| 2025 | 1,439 |
| 2026 | <u>1,319</u> |
| Total | <u>\$ 47,111</u> |

Total rent payments were \$37,197 and \$14,337 for the years ended June 30, 2021 and 2020, respectively.

NOTE 15. CONTINGENCIES

COVID-19 Pandemic – On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses.

NOTE. 15 **CONTINGENCIES (Continued)**

The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Foundation operates. Investment valuations based on stock market conditions and the ability to host in-person events can be impacted by the pandemic. It is unknown how long these conditions will last and what the financial effect will be to the Foundation.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including the valuation of the Foundation's investments.