

THE CARMEL FOUNDATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2022 AND 2021
AND INDEPENDENT AUDITORS' REPORT



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THE CARMEL FOUNDATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Carmel Foundation
Carmel, California

Opinion

We have audited the financial statements of The Carmel Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2022, the related statement 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022, and the changes in its operations 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 Auditor's 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.

Other Matter

The financial statements of The Carmel Foundation as of June 30, 2021 were audited by Hayashi Wayland, LLP whose partners and professional staff joined CliftonLarsonAllen LLP as of November 1, 2022, and has subsequently ceased operations. Hayashi Wayland LLP's report dated December 7, 2021 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

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

Auditor's 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 auditor's 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 substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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



CliftonLarsonAllen LLP

November 28, 2022
Salinas, California

THE CARMEL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

	2022	2021
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,465,205	\$ 1,776,361
Pledges receivable	30,172	41,648
Bequests receivable	50,000	469,195
Beneficial interest in split-interest agreements	378,441	1,423,435
Prepaid expenses and other assets	44,118	31,509
Total current assets	1,967,936	3,742,148
Investments	13,048,583	14,880,267
Property and equipment, net	3,458,507	3,612,505
Donated land lease, net	701,716	744,328
TOTAL ASSETS	\$ 19,176,742	\$ 22,979,248
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 34,352	\$ 26,234
Accrued liabilities and deposits	131,110	132,426
Refundable advance	-	273,840
Total liabilities	165,462	432,500
Net Assets:		
Unrestricted	6,653,456	6,998,969
Board designated	10,140,712	11,640,351
Without donor restrictions	16,794,168	18,639,320
Temporarily restricted	961,642	2,651,958
Permanently restricted	1,255,470	1,255,470
With donor restrictions	2,217,112	3,907,428
Total net assets	19,011,280	22,546,748
TOTAL LIABILITIES AND NET ASSETS	\$ 19,176,742	\$ 22,979,248

See Notes to Financial Statements.

THE CARMEL FOUNDATION
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS AND OTHER SUPPORT:						
Investment return - net	\$ (1,506,230)	\$ (168,515)	\$ (1,674,745)	\$ 2,775,832	\$ 358,318	\$ 3,134,150
Bequests and contributions	512,169	50,000	562,169	424,647	484,195	908,842
Program service fees	133,171	-	133,171	142,383	-	142,383
Membership contributions	205,475	-	205,475	216,888	-	216,888
Senior housing rental income	348,511	-	348,511	355,195	-	355,195
Change in value of split-interest agreements	-	(1,044,994)	(1,044,994)	-	903,308	903,308
In kind donation – land lease	-	77,388	77,388	-	77,388	77,388
Grant revenue	261,128	-	261,128	270,876	-	270,876
Special Event Income	42,765	-	42,765	44,290	-	44,290
Other income	11,131	-	11,131	6,201	-	6,201
Net assets released from restrictions	604,195	(604,195)	-	1,588,866	(1,588,866)	-
Total revenue, gains and other support	612,315	(1,690,316)	(1,078,001)	5,825,178	234,343	6,059,521
EXPENSES:						
Program services:						
Senior housing rentals	813,590	-	813,590	656,170	-	656,170
Meal program expense	390,279	-	390,279	350,382	-	350,382
Other program services	314,785	-	314,785	318,306	-	318,306
Total program services	1,518,654	-	1,518,654	1,324,858	-	1,324,858
Support services:						
General and administrative	767,402	-	767,402	663,325	-	663,325
Fundraising	171,411	-	171,411	198,705	-	198,705
Total support services	938,813	-	938,813	862,030	-	862,030
Total expenses	2,457,467	-	2,457,467	2,186,888	-	2,186,888
CHANGES IN NET ASSETS	(1,845,152)	(1,690,316)	(3,535,468)	3,638,290	234,343	3,872,633
NET ASSETS, BEGINNING OF YEAR	18,639,320	3,907,428	22,546,748	15,001,030	3,673,085	18,674,115
NET ASSETS, END OF YEAR	\$ 16,794,168	\$ 2,217,112	\$ 19,011,280	\$ 18,639,320	\$ 3,907,428	\$ 22,546,748

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022							2021						
	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	\$ 76,030	\$ 144,648	\$ 63,994	\$ 284,672	\$ 274,749	\$ 30,688	\$ 590,109	\$ 63,591	\$ 136,078	\$ 59,697	\$ 259,366	\$ 251,592	\$ 28,926	\$ 539,884
Employee benefits - general	26,936	42,362	20,389	89,687	46,904	6,134	142,725	11,314	37,619	50,939	99,872	41,395	16,168	157,435
Payroll taxes and worker's comp - general	8,101	18,047	6,916	33,064	22,849	2,803	58,716	7,484	17,254	7,036	31,774	19,149	2,703	53,626
Salaries – supervision	149,095	44,733	120,222	314,050	-	77,720	391,770	87,373	43,379	94,663	225,415	-	96,446	321,861
Employee benefits – supervision	18,148	7,929	22,019	48,096	-	11,880	59,976	17,115	7,098	18,524	42,737	-	18,637	61,374
Payroll taxes and workers' comp – supervision	14,011	4,287	11,507	29,805	-	7,432	37,237	9,619	4,175	10,678	24,472	-	8,050	32,522
Total salaries and related expenses	292,321	262,006	245,047	799,374	344,502	136,657	1,280,533	196,496	245,603	241,537	683,636	312,136	170,930	1,166,702
Depreciation	133,181	2,117	507	135,805	70,399	-	206,204	135,072	2,198	939	138,209	70,183	-	208,392
Repairs and maintenance	61,350	6,953	45	68,348	63,463	-	131,811	23,960	5,898	24	29,882	39,968	-	69,850
Utilities and security	127,373	6,717	1,796	135,886	54,578	-	190,464	102,155	3,771	-	105,926	45,123	-	151,049
Donated rent	120,000	-	-	120,000	-	-	120,000	120,000	-	-	120,000	-	-	120,000
Food and meals	-	99,974	2,378	102,352	-	-	102,352	-	85,507	748	86,255	15	-	86,270
Service contracts	4,083	7,716	1,535	13,334	77,492	-	90,826	1,579	4,513	-	6,092	62,366	-	68,458
Insurance	48,782	-	-	48,782	23,376	-	72,158	53,116	-	-	53,116	17,591	-	70,707
Financial assistance	-	1,513	36,000	37,513	-	-	37,513	-	597	46,990	47,587	-	-	47,587
Professional fees	-	-	-	-	45,054	-	45,054	-	-	-	-	48,797	-	48,797
Miscellaneous	38	12	12,959	13,009	33,008	4,146	50,163	57	434	9,962	10,453	16,359	3,521	30,333
Postage and printing	-	-	340	340	5,470	7,470	13,280	-	-	177	177	1,485	6,735	8,397
Supplemental property taxes	24,682	-	-	24,682	13,304	-	37,986	22,907	-	-	22,907	12,468	-	35,375
Other program	-	2,189	672	2,861	84	11,958	14,903	-	85	3,001	3,086	-	6,905	9,991
Office supplies	73	281	4,812	5,166	12,928	7,070	25,164	-	681	7,515	8,196	8,295	4,604	21,095
Telecommunications	1,707	788	1,242	3,737	17,461	367	21,565	828	890	2,575	4,293	22,302	481	27,076
Member activities	-	-	1,421	1,421	3,608	1,273	6,302	-	-	403	403	3,749	480	4,632
Donor recognition	-	-	-	-	171	2,394	2,565	-	-	-	-	-	5,003	5,003
Training and conferences	-	-	-	-	-	-	-	-	205	-	205	365	-	570
Automobile	-	13	105	118	1,630	76	1,824	-	-	16	16	1,120	46	1,182
Library	-	-	1,056	1,056	-	-	1,056	-	-	12	12	-	-	12
Fundraising	-	-	4,870	4,870	874	-	5,744	-	-	4,407	4,407	1,003	-	5,410
Total expenses	\$ 813,590	\$ 390,279	\$ 314,785	\$ 1,518,654	\$ 767,402	\$ 171,411	\$ 2,457,467	\$ 656,170	\$ 350,382	\$ 318,306	\$ 1,324,858	\$ 663,325	\$ 198,705	\$ 2,186,888

See Notes to Financial Statements.

THE CARMEL FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (3,535,468)	\$ 3,872,633
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	206,204	208,392
Change in value of split-interest agreements	1,044,994	(903,308)
Net realized and unrealized (gain) loss on investments	1,923,843	(2,895,268)
(Gain)/loss on disposal of property and equipment	(13,260)	-
(Gain)/loss on forgiveness of debt	(273,840)	(273,000)
(Increase) decrease in:		
Pledges receivable	11,476	7,008
Bequests receivable	419,195	620,988
Prepaid expenses and other assets	(12,609)	(2,542)
Increase (decrease) in:		
Accounts payable	8,118	(15,341)
Accrued liabilities and deposits	(1,316)	3,729
	<u>(180,051)</u>	<u>665,903</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES –		
Refundable advance	-	273,840
	<u>-</u>	<u>273,840</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,559,555	1,010,037
Purchases of investments	(1,651,714)	(1,051,846)
Proceeds from sale of property and equipment	14,571	-
Purchases of property and equipment	(53,517)	(7,684)
	<u>(131,105)</u>	<u>(49,493)</u>
NET CASH USED BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(311,156)	890,250
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,776,361</u>	<u>886,111</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,465,205</u>	<u>\$ 1,776,361</u>

THE CARMEL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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, 2022 and 2021.

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, 2022 and June 30, 2021 were \$733,122 and \$1,010,581, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Nonfinancial Assets – The Foundation received the following contributions of nonfinancial assets for the years ended June 30:

	2022	2021
Auction items	\$27,765	\$26,727
Donated land rent	77,388	77,388

The Foundation receives items to be sold at its annual auction. Contributed auction items (Gifts in Kind) are valued at the stated value of the gift certificate received from the contributor. The selling price of these auction items are recorded at the gross selling price. Donors contributing auction items have not restricted the proceeds from sale.

The Foundation is a 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 is less than the amount that would be charged for similar space that is rented under similar terms. Using publicly available commercial real estate rental listings, the Foundation estimates what the fair value of the donation is and reports as an unconditional promise to give in the accompanying statements of financial position, and the related rent expense is recorded straight line over the life of the lease in the accompanying statements of activities. See Note 7 for additional details.

The Foundation also receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the statements of activities for these fundraising and special projects services because the criteria for recognition have not been satisfied.

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 November 28, 2022, which is the date the financial statements were available to be issued.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effects of New Accounting Pronouncements: In September 2020, the FASB issues ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 was issued to improve generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. The implementation of this standard enhanced the note disclosures around contributed nonfinancial assets.

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	2022			
	Level 1	Level 2	Level 3	Fair Value
Investments	\$ 8,556,233	\$ 178,397	\$ –	\$ 8,734,630
Investments held in pooled funds	–	4,313,953	–	4,313,953
Subtotal	8,556,233	4,492,350	–	13,048,583
Beneficial interest in split-interest agreements valued at net asset value	–	–	378,441	378,441
Total	<u>\$ 8,556,233</u>	<u>\$ 4,492,350</u>	<u>\$ 378,441</u>	<u>\$ 13,427,024</u>

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

Fair value for Level 1 investments is 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, 2022 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>2022</u>	<u>2021</u>
Pedersen Trust	\$ -	\$ 2,000
Mary Boyken Trust	50,000	375,832
Estate of Margaret Shipley	-	1,241
Pope/Evans Trust	-	59,900
Babb Trust	-	22,505
Pyburn Trust	-	<u>7,717</u>
Total	<u>\$ 50,000</u>	<u>\$ 469,195</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, 2022 and 2021. 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 \$3,846,008 and \$4,267,029 at June 30, 2022 and 2021, 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 \$378,441 and \$1,423,435 at June 30, 2022 and 2021, 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 -0.58% and 4.46% for June 30, 2022 and 2021, respectively.
- The life expectancies of the beneficiaries are assumed to be those in IRS publication 590 dated December 2021.
- 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 8.86% and 6.76% at June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
Marketable equity securities	\$ 8,556,233	\$ 10,338,614
Marketable debt securities - bond	178,397	203,282
Pooled funds	<u>4,313,953</u>	<u>4,338,371</u>
Total	<u>\$ 13,048,583</u>	<u>\$ 14,880,267</u>

NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	<u>2022</u>	<u>2021</u>
Buildings	\$ 7,737,204	\$ 7,696,371
Furniture and equipment	621,849	623,159
Land	461,029	461,029
Vehicles	23,464	26,964
Construction in progress	<u>2,923</u>	<u>–</u>
Total	8,846,469	8,807,523
Less accumulated depreciation	<u>5,387,962</u>	<u>5,195,018</u>
Property and equipment, net	<u>\$ 3,458,507</u>	<u>\$ 3,612,505</u>

Depreciation and amortization expense was \$206,204 and \$208,392 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021 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, 2022 and 2021.

Unconditional promise to give at June 30 was as follows:

	<u>2022</u>	<u>2021</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>1,215,619</u>	<u>1,335,619</u>
Total unconditional promise to give donated land lease	1,939,957	2,059,957
Less discount to net present value	<u>1,238,241</u>	<u>1,315,629</u>
Donated land lease, net	<u>\$ 701,716</u>	<u>\$ 744,328</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 accrued interest at 1% but payments were not required to begin until the date that SBA remitted the borrower's loan forgiveness amount to the lender. The Foundation received forgiveness of both Round 1 and Round 2 fundings of the PPP loan and recorded the fundings as a contribution upon meeting certain requirements. The Loan was uncollateralized and was fully guaranteed by the Federal government. The Foundation determined to record the loan as a refundable advance in accordance with the guidance in ASC 958-605 in which the loan proceeds were considered a conditional contribution until they were forgiven.

The Small Business Administration may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Foundation's financial position.

NOTE 9. NET ASSETS WITHOUT DONOR RESTRICTIONS

During the years ended June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
Investments	\$ 7,496,799	\$ 9,174,284
Capital Campaign	1,563,635	1,563,635
Fundraising	926,961	750,747
Maintenance Fund - Norton Ct	74,008	74,008
Needlecraft Fund	48,568	45,731
Thompson Fund	29,391	30,596
Direct mail appeals	<u>1,350</u>	<u>1,350</u>
Total	<u>\$ 10,140,712</u>	<u>\$ 11,640,351</u>

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specific purpose or passage of time:		
Land lease*	\$ 701,716	\$ 744,328
Split-interest agreements*	378,441	1,423,435
Pledge receivable*	–	15,000
Endowment investment return – net	(168,515)	–
Bequest receivable*	<u>50,000</u>	<u>469,195</u>
Subtotal	961,642	2,651,958
Endowments held in perpetuity – Donor-restricted endowment	<u>1,255,470</u>	<u>1,255,470</u>
Total	<u>\$ 2,217,112</u>	<u>\$ 3,907,428</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>2022</u>	<u>2021</u>
Land lease	\$ 120,000	\$ 120,000
Time restriction met	469,195	1,090,183
Pledges receivable	15,000	–
Endowment earnings	–	358,318
Village project	<u>–</u>	<u>20,365</u>
Total	<u>\$ 604,195</u>	<u>\$ 1,588,866</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>2022</u>	<u>2021</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.

From time to time, certain donor-restricted endowment funds may have fair values that are less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2022, funds with original gift values of \$1,255,470, fair values of \$1,087,060, and deficiencies of \$168,410 were reported in net assets with donor restrictions. During the year, the Foundation did not appropriate any expenditure from underwater endowments. Management expects these amounts to be fully recovered during 2023 due to favorable market fluctuations.

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.

NOTE 11. ENDOWMENTS (Continued)

Endowment Net Asset Composition

Endowment net asset composition as of June 30:

As of June 30, 2022 and 2021, the Foundation had the following endowment net asset composition by type of fund:

<u>June 30, 2022</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 1,087,060	\$ 1,087,060
	<u>\$ 1,087,060</u>	<u>\$ 1,087,060</u>
<u>June 30, 2021</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 1,255,470	\$ 1,255,470
	<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>2022</u>	
	<u>With Donor Restriction</u>	<u>Total</u>
Balance at Beginning of Year	\$ 1,255,470	\$ 1,255,470
Investment return - net	(168,410)	(168,410)
Appropriation of endowment assets for expenditure	—	—
Balance at End of Year	<u>\$ 1,087,060</u>	<u>\$ 1,087,060</u>
	<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>

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.

Cash and cash equivalents	\$ 384,927
Pledges receivable	30,172
Bequests receivable	50,000
Prepaid expenses and other assets	44,118
Investments	<u>2,920,890</u>

Total assets available for operations \$ 3,430,107

The Foundation’s governing board has designated a portion of its unrestricted assets in the amount of \$10,140,712. 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 \$21,356 and \$22,034 for the years ended June 30, 2022 and 2021, 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, 2022 are as follows:

2023	\$ 35,207
2024	3,651
2025	1,439
2026	<u>1,319</u>
Total	<u>\$ 41,616</u>

Total rent payments were \$43,107 and \$37,197 for the years ended June 30, 2022 and 2021, respectively.



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