The Community Foundation San Luis Obispo County

Consolidated Financial Statements

December 31, 2022 and 2021

C O N T E N T S

Independent Auditors' Report on the Consolidated Financial Statements

To the Board of Directors
The Community Foundation San Luis Obispo County
San Luis Obispo, California

Opinion

We have audited the accompanying consolidated financial statements of The Community Foundation San Luis Obispo County ("the Organization"), a California non-profit organization, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the non-profit organization as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the 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 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Organization'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 Organization'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.

Caliber Audit & Attest, LLP

San Luis Obispo, California
June 7, 2023

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The Community Foundation San Luis Obispo County

Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 8,460,450	$ 5,762,147
Investments	53,826,177	66,362,527
Prepaid expenses and other assets	14,558	20,448
Investments held for split interest agreements	2,219,716	2,652,555
Notes receivable	1,150,000	1,150,000
Property and equipment, net of accumulated depreciation	1,487,992	1,496,985
Total assets	$ 67,158,893	$ 77,444,662
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 3,063	$ 22,511
Accrued compensation	46,237	45,280
Grants payable	562,682	454,259
Note payable	350,000	350,000
Liabilities to beneficiaries under split interest agreements	581,819	769,860
Agency funds held for others	2,088,149	2,604,796
Deferred revenue	65,000	25,000
Total liabilities	3,696,950	4,271,706
Commitments and Contingencies		
Net Assets		
Without donor restrictions		
Undesignated - operating fund	619,298	771,764
Invested in property and equipment - operating fund	1,487,992	1,496,985
Board designated for operating and capital reserves	831,625	658,805
Board designated for endowment	6,575,987	8,244,347
Designated for donor advised and discretionary grants	1,871,580	2,403,624
Total without donor restrictions	11,386,482	13,575,525
With donor restrictions		
Restricted for specified purpose or passage of time	6,366,225	3,549,774
Restricted for purpose - spendable endowment	18,214,438	24,194,572
Restricted subject to the spending policy on endowment	1,021,730	7,445,025
Restricted in perpetuity - endowment	26,473,068	24,408,060
Total with donor restrictions	52,075,461	59,597,431
Total net assets	63,461,943	73,172,956
Total liabilities and net assets	$ 67,158,893	$ 77,444,662

See Notes to Consolidated Financial Statements.

The Community Foundation San Luis Obispo County

Consolidated Statement of Activities
Year Ended December 31, 2022

	2022		
	Without Donor Restrictions	***With Donor Restrictions***	***Total***
Revenue, Gains and Support			
Contributions	$ 623,922	$ 6,261,570	$ 6,885,492
In-kind services	15,270	-	15,270
Less contributions received on behalf of others	(12,895)	-	(12,895)
Interest and dividends	83,744	1,191,907	1,275,651
Net realized and unrealized loss on investments	(2,210,616)	(10,064,719)	(12,275,335)
Change in value of split interest agreements	-	(244,798)	(244,798)
Less net investment loss allocated to funds held for others	409,791	-	409,791
Miscellaneous income	255,933	-	255,933
Subtotal	(834,851)	(2,856,040)	(3,690,891)
Transfers to (from) funds	77,486	(77,486)	-
Net assets released from restrictions	4,588,444	(4,588,444)	-
Total revenue, gains and support	3,831,079	(7,521,970)	(3,690,891)
Grants and Functional Expenses			
Grants and philanthropic distributions	4,685,089	-	4,685,089
Less grants disbursed on behalf of others	(40,517)	-	(40,517)
Net grant disbursements	4,644,572	-	4,644,572
Other program services	594,560	-	594,560
Management and general	593,395	-	593,395
Fundraising and development	269,505	-	269,505
Less expenses allocated to funds held for others	(81,910)	-	(81,910)
Total expenses	6,020,122	-	6,020,122
Change in net assets	$ (2,189,043)	$ (7,521,970)	$ (9,711,013)

See Notes to Consolidated Financial Statements.

The Community Foundation San Luis Obispo County

Consolidated Statement of Activities
Year Ended December 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Support			
Contributions	$ 1,248,719	$ 6,924,167	$ 8,172,886
In-kind services	26,432	-	26,432
Less contributions received on behalf of others	(203,860)	-	(203,860)
Interest and dividends	176,656	1,248,282	1,424,938
Net realized and unrealized gain on investments	502,534	4,506,102	5,008,636
Change in value of split interest agreements	-	62,738	62,738
Less net investment loss allocated to funds held for others	(243,980)	-	(243,980)
Miscellaneous income	257,170	-	257,170
Subtotal	1,763,671	12,741,289	14,504,960
Transfers to (from) funds	126,981	(126,981)	-
Net assets released from restrictions	3,813,965	(3,813,965)	-
Total revenue, gains and support	5,704,617	8,800,343	14,504,960
Grants and Functional Expenses			
Grants and philanthropic distributions	3,591,150	-	3,591,150
Less grants disbursed on behalf of others	(35,235)	-	(35,235)
Net grant disbursements	3,555,915	-	3,555,915
Other program services	443,549	-	443,549
Management and general	517,043	-	517,043
Fundraising and development	226,340	-	226,340
Less expenses allocated to funds held for others	(63,976)	-	(63,976)
Total expenses	4,678,871	-	4,678,871
Change in net assets	$ 1,025,746	$ 8,800,343	$ 9,826,089

See Notes to Consolidated Financial Statements.

The Community Foundation San Luis Obispo County

Consolidated Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services		Management	Fundraising	
	Grants	Other	& General	& Development	Total
Grant disbursements	$ 4,644,572	$ -	$ -	$ -	$ 4,644,572
Advertising	-	10,212	10,520	10,212	30,944
Consulting	-	-	52,432	-	52,432
Depreciation	-	18,441	19,000	18,441	55,882
Employee benefits	-	21,706	27,908	12,404	62,018
Fund operation expenses	-	197,383	-	-	197,383
Information technology	-	25,831	20,554	19,950	66,335
Insurance	-	1,635	19,884	935	22,454
Licenses and permits	-	25	-	-	25
Membership, dues, and subscriptions	-	5,991	6,173	5,991	18,155
Miscellaneous	-	16,357	18,243	16,357	50,957
Occupancy	-	6,973	7,184	6,973	21,130
Office expenses	-	6,518	6,716	6,518	19,752
Payroll taxes	-	18,271	23,491	10,440	52,202
Professional fees	-	359	45,157	359	45,875
Program expense		3,301	-	11,205	14,506
Retirement plan contributions	-	7,729	9,937	4,416	22,082
Salaries and wages	-	253,224	325,573	144,700	723,497
Travel	-	604	623	604	1,831
Total functional expenses	$ 4,644,572	$ 594,560	$ 593,395	$ 269,505	6,102,032
Less expenses allocated to funds held for others					(81,910)
					$ 6,020,122

See Notes to Consolidated Financial Statements.

The Community Foundation San Luis Obispo County

Consolidated Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services		*Management*	*Fundraising*	
	Grants	*Other*	*& General*	*& Development*	*Total*
Grant disbursements	$ 3,555,915	$ -	$ -	$ -	$ 3,555,915
Advertising	-	3,579	3,687	3,579	10,845
Consulting	-	-	44,823	-	44,823
Depreciation	-	17,247	17,770	17,247	52,264
Employee benefits	-	19,242	24,740	10,996	54,978
Fund operation expenses	-	107,453	-	-	107,453
Information technology	-	16,524	17,006	16,506	50,036
Insurance	-	1,358	15,573	776	17,707
Licenses and permits	-	20	-	-	20
Membership, dues, and subscriptions	-	5,452	5,617	5,452	16,521
Miscellaneous	-	9,236	10,682	9,236	29,154
Occupancy	-	5,252	5,404	5,245	15,901
Office expenses	-	7,581	7,813	7,581	22,975
Payroll taxes	-	16,980	21,832	9,703	48,515
Professional fees	-	1,090	49,148	1,090	51,328
Program expense	-	4,677	-	8,708	13,385
Retirement plan contributions	-	6,822	8,771	3,898	19,491
Salaries and wages	-	220,996	284,137	126,283	631,416
Travel	-	40	40	40	120
Total functional expenses	$ 3,555,915	$ 443,549	$ 517,043	$ 226,340	4,742,847
Less expenses allocated to funds held for others					(63,976)
					$ 4,678,871

See Notes to Consolidated Financial Statements.

The Community Foundation San Luis Obispo County

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2022 and 2021

	Without Donor Restrictions	With Donor Restrictions	Totals
Net Assets - December 31, 2020	$ 12,549,779	$ 50,797,088	$ 63,346,867
Change in net assets	1,025,746	8,800,343	9,826,089
Net Assets - December 31, 2021	13,575,525	59,597,431	73,172,956
Change in net assets	(2,189,043)	(7,521,970)	(9,711,013)
Net Assets - December 31, 2022	$ 11,386,482	$ 52,075,461	$ 63,461,943

See Notes to Consolidated Financial Statements.

The Community Foundation San Luis Obispo County

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ (9,711,013)	$ 9,826,089
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for endowments	(2,216,727)	(5,293,077)
Depreciation	55,882	52,265
Net realized and unrealized loss (gain) on investments	12,275,335	(5,008,636)
Change in value of split interest agreement	244,798	(62,738)
Change in operating assets and liabilities:		
Prepaid expenses and other assets	5,890	14,505
Accounts payable	(19,448)	1,329
Accrued compensation	957	5,783
Grants payable	108,423	161,064
Agency funds held for others	(516,647)	348,628
Deferred revenue	40,000	25,000
Net cash provided by operating activities	267,450	70,212
Cash flows from investing activities:		
Purchase of investments	(30,118,310)	(57,762,541)
Proceeds from sale of investments	30,379,325	53,898,593
Purchase of property and equipment	(46,889)	(63,144)
Net cash provided by (used in) investing activities	214,126	(3,927,092)

See Notes to Consolidated Financial Statements.

The Community Foundation San Luis Obispo County

Consolidated Statements of Cash Flows - Continued
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from financing activities:		
Contributions restricted for endowments	$ 2,216,727	$ 5,293,077
Net cash provided by financing activities	2,216,727	5,293,077
Net increase in cash and cash equivalents	2,698,303	1,436,197
Cash and cash equivalents, beginning of year	5,762,147	4,325,950
Cash and cash equivalents, end of year	$ 8,460,450	$ 5,762,147
Cash and cash equivalents		
Available for operations, including board reserved funds	$ 1,471,355	$ 1,432,833
Available for specific purposes	6,989,095	4,329,314
Total cash and cash equivalents	$ 8,460,450	$ 5,762,147

See Notes to Consolidated Financial Statements.

Note 1. Operations and Summary of Significant Accounting Policies

Nature of operations:

The Community Foundation San Luis Obispo County ("the Foundation") is a California non-profit, non-stock, public benefit corporation that was incorporated on May 9, 1998, under the laws of the State of California. The mission of The Community Foundation San Luis Obispo County is to make a difference through philanthropic leadership. The Foundation administers various funds contributed by individuals, organizations, and businesses. The funds are managed as a pool of assets. A percentage of the funds' assets are distributed to local non-profit organizations in the form of grants or to local students in the form of scholarships. The Foundation's activities are conducted by the Board of Directors, Chief Executive Officer and supporting staff.

Principles of consolidation:

The accompanying consolidated financial statements as of December 31, 2022 and 2021 include the financial statements of the Foundation and the Real Estate Foundation of San Luis Obispo County, which is a supporting organization under the control of the Foundation. The supporting organization is a separate legal entity under Section 509(a)(3) of the Internal Revenue Code (IRC) and has its own board of directors and uses the Foundation to administer and invest their assets as a fiduciary agent. The total net asset balance of the Real Estate Foundation as of December 31, 2022 and 2021 was $419,877 and $426,286, respectively. Intercompany transactions and balances have been eliminated in the consolidation.

Basis of accounting:

The financial statements are presented on an accrual basis, which recognizes income when performance obligations are met, and expenses when incurred, and in accordance with accounting principles generally accepted in the United States of America (GAAP).

Financial statement presentation and net assets:

In order to accommodate the various alternatives for donors' distribution objectives, the Foundation's records are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund.

The Foundation has presented its consolidated financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions or with donor restrictions.

The Foundation reports contributions as with donor restrictions 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 a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> ***Net Assets Without Donor Restrictions:*** Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve, capital reserve, and for investment in the endowment pool with earnings to be used for general operations or discretionary grants. Donor advised funds are considered without donor restrictions since the board has variance power and the funds are available for distribution upon recommendation by the donor.

> ***Net Assets With Donor Restrictions:*** Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Significant estimates used in preparing these consolidated financial statements include those assumed in computing the estimated fair value of the split interest agreements and the hedge funds, the estimated value of contributed real estate, and the functional allocation of expenses.

Cash and cash equivalents:

The Foundation considers cash equivalents to be all highly liquid debt instruments with a maturity of three months or less. Cash and cash equivalents consist mainly of cash and money market funds and are valued using Level 1 inputs as discussed in Note 4.

Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Concentrations of credit risk:

The Foundation maintains cash balances at financial institutions located in California. Certain accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times during the years ended December 31, 2022 and 2021, the Foundation held cash in excess of federally insured limits at Pacific Premier Bank; however, the Foundation has an agreement with Pacific Premier Bank to collateralize and therefore guarantee all deposits at this bank in excess of $250,000 for the Foundation with no limit.

The Foundation invests in various types of cash equivalents, such as marketable securities and money market funds. The Foundation has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified.

The Foundation also invests in various investment 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 value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

Investment valuation and income recognition:

The Foundation's investments are stated at fair market value in the consolidated statement of financial position, with all gains and losses included in the consolidated statement of activities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurement.

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 investments as timely as possible.

Investments are made according to the Investment Policy adopted by the Foundation’s Board of Directors and monitored by an outsourced fund manager. These guidelines provide for a balanced diversified portfolio with investments in equities, fixed income and other securities with performance measured against appropriate indices. Outside parties are contracted by the Foundation for the purpose of providing investment management.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year, or since the acquisition date, if acquired during the year.

Real estate held for sale:

The Real Estate Foundation receives donated land and property to further assist donors in building an enduring source of charitable funds. Real estate held for sale is valued at the fair value at the time of the donation (on a non-recurring basis) based on independent valuations or pending sales contracts.

Investment, administrative and management fees:

Investment, administrative, and management fees are recognized in the fiscal year in which they occur.

The Foundation charges an administrative fee internally for endowed and non-endowed funds under management. These fees help fund general operations, and are recorded internally both as revenue and expense. The fees have been netted for financial statement presentation as the fees do not come from sources external to the Foundation. Administrative fees charged to the internal funds and netted to zero against the expense totaled $878,599 and $796,375, for the years ended December 31, 2022 and 2021, respectively.

Investment and management fees are net against investment earnings in net realized and unrealized gain or loss on investments.

Notes receivable:

Notes receivables are funds advanced to other organizations or individuals. Notes receivable are periodically evaluated for collectability based on past credit history and their current financial condition. Provisions for losses on notes receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral, and current economic conditions. No such provision for loss was considered necessary by management at December 31, 2022 and 2021.

Property and equipment:

Purchased property and equipment are stated at cost; donated assets are valued at their estimated fair value on the date donated. All assets are depreciated over estimated useful lives on a straight-line basis. Repairs and maintenance and small equipment purchases are expensed as incurred. Expenditures that significantly increase asset values or extend useful lives are capitalized. Acquisitions of property and equipment in excess of $500 that meet the capitalization requirements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gains, or losses are included on the statement of activities.

Estimated useful lives are as follows:

	Years
Building	40
Building improvements	5 – 15
Furniture, fixtures, and equipment	3 – 7

Split interest agreements:

The Foundation has irrevocable remainder beneficiary interests in split interest agreements whose maturities are based on the life expectancy of the income beneficiaries (See Note 5). The Foundation is the trustee and beneficiary of the remainder interests in charitable remainder trust funds, which are held by another party as the agent for management purposes. The Foundation makes distributions to the income beneficiary for a given term and then at the end of the term, the remaining assets in the trust will be transferred to the Foundation. The Foundation has recorded the assets related to these funds, as well as the liabilities to the lifetime beneficiaries at the net present value of the estimated future payments. The excess of contributed assets over the trust liability is recorded as a contribution with donor restrictions until such amount is received via trust distribution or is expended in satisfaction of the donor-restricted purpose stipulated by the trust agreement, or both, if any. At that time, net assets with donor-imposed time or purpose restrictions are released to net assets without restrictions, and net assets with donor restrictions that are perpetual in nature and transferred to the endowment. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year.

The Foundation is also the beneficiary of the remainder interest in a charitable gift annuity, in which a third party is the trustee. The Foundation has recorded the assets related to this charitable gift annuity at the net present value of the estimated future amount to be received.

The change in fair value of these assets is included in the change in value of split interest agreements on the statement of activities.

Charitable gift annuities license:

The Foundation has a California insurance license, allowing it to offer charitable gift annuities. Charitable gift annuities are recognized in the period in which the contract is executed. The assets received are recognized at fair value when received, and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the lifetime beneficiary, based on current life expectancy tables and a discount rate equal to the rate of return on the investment as initially agreed upon with the donor. In the cases where the Foundation sells or insures the annuity payment liability, no amounts are recorded on the statement of financial position. As of December 31, 2022, the Foundation has not issued any charitable gift annuities.

Grants payable:

Grants are made from available principal and income in accordance with the designation of the donors. The Foundation records a liability for grants when they have been approved by the Board of Directors.

Agency funds held for others:

The Foundation receives and distributes assets under certain agency and intermediary arrangements. The Foundation follows the authoritative guidance in the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (*ASC*) topic for *Not-for-Profit Entity, Revenue Recognition, Agent*. This Standard establishes standards for transactions in which the Foundation accepts assets from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to a not-for profit organization that is specified by the donor. This Standard specifically requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the Foundation must account for the transfer of such assets as a liability.

The liability is reflected under agency funds held for others on the accompanying statements of financial position. In addition, related amounts received or distributed, investment income or loss, and expenses are presented separately on the accompanying statements of activities.

Contributions:

All contributions are considered to be available for use and without donor restrictions unless specifically restricted by the donor. All pledges and amounts received that are donor restricted for future periods or donor restricted for specific purposes are reported as net assets with donor restrictions. The restricted net assets are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restriction when the donor stipulated time restriction ends or the purpose restriction is accomplished by the Foundation. Contributions of assets other than cash, which are primarily donated investment securities, are recorded at estimated fair market value at the time of receipt and are liquidated as soon as feasible. Conditional promises are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributed services:

Contributed services are recorded in the consolidated financial statements to the extent that those services create or enhance a nonfinancial asset or meet the following criteria: a) the service requires specialized skills, b) the service is provided by individuals who possess those skills, and c) the service would typically need to be purchased if not contributed. The Foundation was provided accounting and marketing services at no cost. Based on current market rates for these services, the Foundation would have paid $15,270 and $26,432 for the years ended December 31, 2022 and 2021, respectively. All gifts-in-kind received by the Foundation for the years ended December 31, 2022 and 2021 were considered without donor restrictions and able to be used by the Foundation as determined by the board of directors and management. For the years ended December 31, 2022 and 2021, there were also amounts that did not meet the criteria for recognition as described above, despite the considerable value of donated time by volunteers and board members to the mission of the Foundation.

Income tax status:

The Foundation’s activities are generally exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Franchise Tax Code except for unrelated business income tax, if any. Unrelated business income tax is tax on income generated by an activity that is unrelated to the tax-exempt purpose of the organization, it is a trade or business, is regularly carried on, and is not substantially related to the organization’s exempt purpose. Since the Foundation is exempt from federal and state income tax liability and does not engage in any activities that would generate unrelated business income tax, no provision is made for current or deferred income tax expense.

For the years ended December 31, 2022 and 2021, management of the Foundation is not aware of any material uncertain tax positions to be accounted for in the consolidated financial statements under the principles of the *Income Taxes* topic of the FASB *ASC*. The Foundation recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense.

All tax-exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes. Management has determined that each entity is not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Functional expense allocations:

Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management.

Advertising:

The Foundation expenses marketing costs as incurred. Advertising expense was $30,944 and $10,845 for the years ending December 31, 2022 and 2021, respectively.

Reclassifications:

Certain amounts in the 2021 financial statements have been reclassified for comparative purposes to conform with presentation in the 2022 financial statements.

Recent accounting pronouncements:

The FASB issued ASU 2016-02, *Leases (Topic 842).* This standard amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The standard is now effective for fiscal years beginning after December 15, 2021, which means that it is effective for the Foundation for the year beginning January 1, 2022. The standard is required to be adopted using a modified retrospective approach. The pronouncement had no impact on the financial statements.

Note 2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, including use for operating expenses or discretionary grants, within one year of the balance sheet date, comprise the following:

Operating fund	$	639,730
Operating reserve		609,648
Real Estate Foundation cash		69,877
Line of credit available		50,000
Money market		7,934,325
Investments for board designated endowments		6,513,432
	$	15,817,012

Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was $609,648 as of December 31, 2022. As part of the Foundation's liquidity management, financial assets are structured to be available as its general expenditures, liabilities and other obligations come due. Cash in excess of daily requirements is invested in money market funds and short-term investments. To help manage unanticipated liquidity needs, the Foundation has a line of credit (see Note 10), which it could draw upon.

The assets above include $7,934,325 in donor-advised funds and pass-through funds as of December 31, 2022. The Foundation generally uses these assets for discretionary grant making based on donor recommendations.

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments that is restricted for specific purposes is not available for general expenditures. As described in Note 7, the Foundation's board-designated endowments are subject to an annual spending rate. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated per the board's annual spending rate approval), these amounts could be made available if necessary.

Note 3. Property and Equipment

Major classes of property and equipment and accumulated depreciation are as follows at December 31, 2022 and 2021:

	2022	2021
Land	$ 425,000	$ 425,000
Building	1,275,000	1,275,000
Building improvements	253,289	215,471
Furniture, fixtures, and equipment	168,989	147,688
Construction in progress	-	12,229
	2,122,278	2,075,388
Less accumulated depreciation	(634,286)	(578,403)
Total property and equipment	$ 1,487,992	$ 1,496,985

Depreciation expense for the years ended December 31, 2022 and 2021 was $55,882 and $52,265, respectively.

Note 4. Investments and Fair Value Measurements

Investments consist of the following at December 31, 2022 and 2021:

	2022	2021
Domestic equities	$ 23,076,703	$ 28,124,854
International equities	11,736,463	13,056,793
Open-ended mutual funds	4,046,946	2,530,789
Close-ended funds and exchange traded funds	245,351	3,039,226
Fixed income	11,097,036	16,071,552
Hedge funds	1,589,079	1,917,972
Cash equivalents in endowment pool	2,034,599	1,621,341
Total investments	$ 53,826,177	$ 66,362,527

Investments are measured at fair market value on a recurring basis. Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

- Level 2 inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, 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 inputs are significant unobservable inputs for the asset or liability.

The level of the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Investments are stated at fair value, which is based on quoted market prices, except for alternative investments for which quoted market prices are not available. The Foundation has alternative investments in hedge funds. Domestic equities, international equities, mutual funds, exchange traded funds, and fixed income are classified within Level 1 and fair value is based on quoted market prices. The hedge funds are classified as Level 3. The fair value of the hedge funds has been estimated using the net asset value per share of the investments provided by the hedge fund managers and lags one quarter due to timing.

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial instruments at fair value as of December 31, 2022:

	Level 1	Level 3
Domestic equities	$ 23,076,703	$ -
International equities	11,736,463	-
Open-ended mutual funds	4,046,946	-
Close-ended funds and exchange traded funds	245,351	-
Fixed income	11,097,036	-
Hedge funds	-	1,589,079
Cash equivalents in endowment pool	2,034,599	-
Total investments	$ 52,237,098	$ 1,589,079

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial instruments at fair value as of December 31, 2021:

	Level 1	Level 3
Domestic equities	$ 28,124,854	$ -
International equities	13,056,793	-
Open-ended mutual funds	2,530,789	-
Close-ended funds and exchange traded funds	3,039,226	-
Fixed income	16,071,552	-
Hedge funds	-	1,917,972
Cash equivalents in endowment pool	1,621,341	-
Total investments	$ 64,444,555	$ 1,917,972

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 investments shown above for the years ended December 31, 2022 and 2021:

	Hedge Funds
Balance, at December 31, 2020	$ 1,731,588
Distributions from hedge funds	-
Total gains (unrealized and realized), net of fees	186,384
Balance, at December 31, 2021	1,917,972
Distributions from hedge funds	-
Total losses (unrealized and realized), net of fees	(328,893)
Balance, at December 31, 2022	$ 1,589,079

Unrealized gains (losses) associated with the hedge funds, which are Level 3 financial instruments, totaled ($328,893) and $186,384 for the years ended December 31, 2022 and 2021, respectively.

Valuation of the hedge funds are reviewed periodically and determined through consideration of the net asset values provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

Hedge funds are recorded at estimated fair value based on the net asset value of the Foundation's ownership interest in the partners' capital, which includes assumptions and methods that were prepared by the general partner of the limited partnerships. The Foundation believes that the reported amounts for these investments are a reasonable estimate of fair value; however could be subject to change in the near term. The following table represents the valuation techniques used to measure the fair value of the hedge funds, and the significant unobservable inputs and ranges of values for those inputs.

	Fair value	***Principal valuation technique***	***Unobservable inputs***	***Range of significant input values***
Hedge funds	$1,589,079 as of 2022; $1,917,972 as of 2021	Net asset value of the Foundation's ownership interest in the partner's capital	Investment period (liquidity)	annually

Note 5. Split Interest Agreements

Charitable Remainder Trusts:

The Foundation is named the beneficiary of the remainder interest in two charitable remainder trusts. At the time of the trust agreement being initially executed with the Foundation, contribution revenue was recognized using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect the updated present value calculation. The present value of the liability is calculated by using recent life expectancy tables and risk adjusted discount rates.

The Foundation is the trustee, and as such the assets and liabilities are shown on the statement of financial position on a gross basis. As of December 31, 2022, the gross asset value is $2,218,008 and the estimated present value of the liability to the beneficiaries is $581,819. As of December 31, 2021, the gross asset value was $2,649,887 and the estimated present value of the liability to the beneficiaries was $769,860. The assets are held in trust accounts and are invested in equities, mutual funds, and fixed income securities.

Charitable Gift Annuities:

The Foundation was named the beneficiary of the remainder interest, or a portion thereof, in one charitable gift annuity which was held as of December 31, 2022 and 2021. Contribution revenue and the related assets are recognized using the fair value of the Foundation's interest in the assets less the present value of the payments expected to be made to the beneficiaries. The present value is calculated by using recent life expectancy tables and risk adjusted discount rates. The Foundation is not the trustee, and as such the asset and liability are shown on a net basis on the statement of financial position. At December 31, 2022 and 2021, the beneficial interest in the charitable gift annuities was $1,708 and $2,668, respectively.

The valuation of split interest agreements falls into the Level 3 category of the fair value hierarchy, as discussed in Note 4.

The following table sets forth a summary of changes in the fair value of the split interest agreements, on a net basis, which are Level 3 assets, for the years ended December 31, 2022 and 2021:

	Split Interest Agreements
Balance, at December 31, 2020	$ 1,819,957
Total gains/losses (unrealized and realized)	62,738
Balance, at December 31, 2021	1,882,695
Total gains/losses (unrealized and realized)	(244,798)
Balance, at December 31, 2022	$ 1,637,897

The following table represents the valuation techniques used to measure the fair value of the split interest agreements, and the significant unobservable inputs and ranges of values for those inputs.

	Fair value	***Principal valuation technique***	***Unobservable inputs***	***Range of signigicant input values***
Split interest agreements	$1,637,897 at 2022; $1,882,695 at 2021	Net present value of the estimated future value to be received	Discount rate	3 - 4%
			Years remaining	3 - 7

Note 6. Notes Receivable and Note Payable

In 2018, the Real Estate Foundation was assigned a note receivable with a principal balance of $700,000 from a donor. The note is secured by real property, with monthly payments of interest only in the amount of $2,771, at the rate of 4.75%. The principal and any unpaid accrued interest are due on June 1, 2028. Under an MOU agreement, as interest payments are received, the amounts are split and paid to The Community Foundation San Luis Obispo County and the Santa Barbara Foundation after deducting a loan servicing fee by the Real Estate Foundation. Under the MOU, when the principal is collected, 50% will be payable to the Santa Barbara Foundation. This has been recorded as a note payable since it is due to an outside organization after collected. The other half will be transferred from the supporting organization (Real Estate Foundation) to the Organization (The Community Foundation San Luis Obispo County) and will be recorded at the time of transfer into the fund.

In 2018, the Foundation entered into a mission related investment, note receivable with a principal balance of $350,000 with the San Luis Obispo County Housing Trust Fund. The note is unsecured with interest only payments at 3%, paid quarterly, with full loan balance due on August 31, 2023. In 2019, the Foundation entered into another mission related investment, note receivable with a principal balance of $100,000 with the San Luis Obispo County Housing Trust Fund. The note is unsecured with interest only payments at 3%, paid quarterly, with full loan balance due on July 15, 2024.

Note 7. Endowment Funds

The Foundation’s endowment (the Endowment) consists of approximately 180 individual funds. Funds are established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Directors.

The Board of Directors has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

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 considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Investment and Spending Policies:

The Foundation's endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the funds to utilize current income (dividend and interest) and aggregate return from capital appreciation, in an attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Within this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to produce a minimum annual compound total rate of return in excess of the asset-weighted blend of appropriate indices for each of the money managers for the equity portfolio and a minimum annual compound total rate of return in excess of the Barclay's Aggregate Bond Index for the fixed income portfolio. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciations (realized and unrealized) and current earnings (interest and dividends). The Foundation targets a diversified asset allocation.

Endowment funds are maintained in pooled investment portfolios. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the endowment funds in proportion to each fund's share in the investment pools.

The Foundation's spending policy calculates the amount of money annually available to spend from the Foundation's endowed funds for grant making. The spending policy is approved on an annual basis by the Board of Directors.

The Foundation spending policy is calculated as of December 31 each year, and currently allocates 3.75 % per annum of the average net value of a fund invested in the pool, calculated over the last twelve quarters, to each fund's "Available to Spend" balance, which is available for granting in future years. If a fund has a lower amount of accumulated earnings than the calculated available to spend for the upcoming year, Available to Spend will be limited to the amount of its accumulated earnings.

Over the long-term, the Foundation expects current spending policy to allow its endowment assets to provide real growth over the average rate of inflation annually. This is consistent with the objective to maintain purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns. The spending policy was 3.75% for the years ended December 31, 2022 and 2021. There were no other changes made to the spending policy for the years ended December 31, 2022 and 2021.

At December 31, 2022, the Foundation had the following endowment net asset composition by type of fund:

	Without Donor Restrictions	***With Donor Restrictions***	***Total***
Board designated endowment funds	$ 6,575,987	$ -	$ 6,575,987
Donor restricted endowments with principal to be held in perpetuity	-	26,473,068	26,473,068
Accumulated investment gains	-	1,021,730	1,021,730
Donor restricted endowments in which principal may be distributed for specified purpose	-	18,214,438	18,214,438
Total	$ 6,575,987	$ 45,709,236	$ 52,285,223

At December 31, 2021, the Foundation had the following endowment net asset composition by type of fund:

	Without Donor Restrictions	***With Donor Restrictions***	***Total***
Board designated endowment funds	$ 8,244,347	$ -	$ 8,244,347
Donor restricted endowments with principal to be held in perpetuity	-	24,408,060	24,408,060
Accumulated investment gains	-	7,445,025	7,445,025
Donor restricted endowments in which principal may be distributed for specified purpose	-	24,194,572	24,194,572
Total	$ 8,244,347	$ 56,047,657	$ 64,292,004

The changes in endowment net assets for the years ended December 31, 2022 and 2021 are as follows:

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Endowment net assets, December 31, 2020	$ 8,053,509	$ 47,881,337	$ 55,934,846
Investment return, net	845,255	5,664,064	6,509,319
Contributions	1,711	5,293,077	5,294,788
Transfers	(251,300)	166,581	(84,719)
Appropriation of endowment assets for expenditure	(404,828)	(2,957,402)	(3,362,230)
Endowment net assets, December 31, 2021	8,244,347	56,047,657	64,292,004
Investment return, net	(1,295,453)	(9,002,481)	(10,297,934)
Contributions	2,540	2,216,727	2,219,267
Transfers	(229,916)	(11,212)	(241,128)
Appropriation of endowment assets for expenditure	(145,531)	(3,541,455)	(3,686,986)
Endowment net assets, December 31, 2022	$ 6,575,987	$ 45,709,236	$ 52,285,223

From time to time, certain donor-restricted endowment funds may have fair market values 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. This excess amount for endowments with principal to be held in perpetuity totaled $8,075 and $27,396 as of December 31, 2022 and 2021, respectively, and related to 2 and 9 different permanent endowment funds in 2022 and 2021, respectively. There was no aggregate deficiency when adding all of the endowment funds with principal to be held in perpetuity with donor restrictions as of December 31, 2022 and 2021, respectively.

Note 8. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2022 and 2021:

	2022	*2021*
Purpose or other restriction accomplished	$ 1,046,990	$ 856,565
Release of earnings on perpetual endowment	1,420,027	1,225,009
Release of spendable endowment	2,121,427	1,732,391
Total net assets released from restrictions	$ 4,588,444	$ 3,813,965

Note 9. Grants Payable and Expense

As of December 31, 2022 and 2021, grants payable were as follows:

	2022	*2021*
Payable within one year	$ 416,682	$ 317,259
Payable within two to five years	146,000	137,000
Total grants payable	$ 562,682	$ 454,259

Grants are approved and made by the board and are recorded when approved and all conditions have been met. Based on materiality, grants payable beyond one year have not been discounted to the present value.

The break out of grant expense for the years ended December 31, 2022 and 2021 is as follows:

	2022	*2021*
Health and human services	$ 1,628,530	$ 1,060,557
Education	248,598	641,445
Community engagement	1,603,906	520,287
Arts	624,748	323,053
Scholarships	256,605	337,278
Disaster relief	322,702	708,530
Total grants and philanthropic distributions	$ 4,685,089	$ 3,591,150

Note 10. Line of Credit

The Foundation has a line of credit with Pacific Premier Bank, allowing for borrowings up to $50,000 with a maturity date of September 1, 2023. The line has a variable interest rate at the Wall Street Journal prime rate with a minimum rate of 4.25%. At December 31, 2022, the Wall Street Journal prime rate was 7.5%. There was no outstanding balance on the line of credit at December 31, 2022 and 2021.

Note 11. Functionalized Expenses – Methods used for Allocations

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include insurance, depreciation, contract services, promotion and publication, salaries, benefits, and payroll taxes, which are allocated on the basis of estimates of time and effort.

Note 12. Agency Funds Held for Others

When a not-for-profit organization establishes a fund at the Foundation with its own funds and specifies itself or its affiliate as the beneficiary of the fund, the Foundation accounts for the transfer of such assets as a liability. In addition, the related amounts received or distributed, investment income or loss, and expenses are excluded from the consolidated statement of activities. Agency funds held for others totaled $2,088,149 and $2,604,796 December 31, 2022 and 2021, respectively, for funds set up by unaffiliated non-profit organizations for their own benefit with the Foundation holding the assets.

Note 13. Concentrations - Major Contributions

For the year ended December 31, 2022, approximately 62%, or $4,933,143, of the Foundation's contribution revenue came from four donors. For the year ended December 31, 2021, approximately 59%, or $5,013,296, of the Foundation's contribution revenue came from four donors.

Note 14. Retirement Plan

The Foundation has a 401(k) profit sharing plan (the Plan) that covers all eligible employees. Employees are eligible to participate in the Plan after one year of eligible service. Each participant may elect to contribute up to the maximum limit by federal law. The Foundation makes a 3% safe harbor contribution, and may also make discretionary contributions. Employer contributions totaled $22,082 and $19,491 for the years ended December 31, 2022 and 2021, respectively.

Note 15. Related Party Transactions

During the years ended December 31, 2022 and 2021, donations were received from board and committee members. In addition, $4,419 and $3,778 of internet and marketing services were purchased from companies owned by board and committee members, during the years ended December 31, 2022 and 2021, respectively.

Note 16. Paycheck Protection Program

In April 2020 and March 2021, the Foundation was granted $100,050 and $112,717 forgivable loans under the Paycheck Protection Program (PPP) of the CARES Act to manage cash flows and meet expenditures as they come due. The Foundation was given official forgiveness of the loan amounts, as the funds were used for qualifying expenses. The amounts were previously recorded as income and could be subject to future oversight.

Note 17. Subsequent Events

The date to which events occurring after December 31, 2022 have been evaluated for possible adjustment to the consolidated financial statements or disclosure is June 7, 2023, which is the date on which the consolidated financial statements were available to be issued.