The Rancho Santa Fe Foundation

Financial Statements
For the Year Ended December 31, 2018
With Summarized Financial Information for 2017

MHM

Contents

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Independent Auditors' Report

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

We have audited the accompanying financial statements of **The Rancho Santa Fe Foundation** ("the Foundation"), a nonprofit organization, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **The Rancho Santa Fe Foundation** as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited **The Rancho Santa Fe Foundation's** 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 14, 2018. In our opinion, the summarized comparative information herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018 the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

San Diego, California
May 17, 2019

The Rancho Santa Fe Foundation

Statements of Financial Position

(Rounded to the nearest thousandth)

With Summarized Financial Information for 2017

December 31,

Assets		Without Donor Restrictions		With Donor Restrictions		2018 Total		2017 Total
Cash and cash equivalents	$	1,908,000	$	137,000	$	2,045,000	$	799,000
Investments		41,097,000		43,575,000		84,672,000		87,762,000
Assets held for other agencies		28,423,000		-		28,423,000		30,384,000
Assets held under unitrust agreement		317,000		40,000		357,000		418,000
Contributions receivable		-		1,045,000		1,045,000		829,000
Other assets		31,000		-		31,000		37,000
Total assets	$	71,776,000	$	44,797,000	$	116,573,000	$	120,229,000
Liabilities and Net Assets								
Liabilities:								
Grants payable and accrued expenses	$	50,000	$	-	$	50,000	$	86,000
Liability under unitrust agreement		317,000		-		317,000		372,000
Due to other agencies		28,423,000		-		28,423,000		30,384,000
Total liabilities		28,790,000		-		28,790,000		30,842,000
Net Assets:		42,986,000		44,797,000		87,783,000		89,387,000
Total Net Assets and Liabilities	$	71,776,000	$	44,797,000	$	116,573,000	$	120,229,000

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

The Rancho Santa Fe Foundation

Statements of Actitivies

(Rounded to the nearest thousandth)

With Summarized Financial Information for 2017

Years ended December 31,

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Revenue, earnings (losses), and other support:				
Gifts and bequests	$ 10,137,000	$ 1,438,000	$ 11,575,000	$ 6,611,000
Net investment earnings (losses)	(2,187,000)	(2,441,000)	(4,628,000)	11,332,000
Interfund transfers	(83,000)	83,000	-	-
Change in value of contribution receivable	-	-	-	(3,314,000)
Change in value of split interest agreement	-	-	-	27,000
Management fee revenue	267,000	-	267,000	241,000
	8,134,000	(920,000)	7,214,000	14,897,000
Net assets released from restriction	3,710,000	(3,710,000)	-	-
Total revenue, earnings (losses), and other support	11,844,000	(4,630,000)	7,214,000	14,897,000
Expenses:				
Program grants	7,729,000	-	7,729,000	8,003,000
Operating and administrative expenses	1,089,000	-	1,089,000	1,010,000
Total expenses	8,818,000	-	8,818,000	9,013,000
Change in net assets	3,026,000	(4,630,000)	(1,604,000)	5,884,000
Net assets at beginning of year	39,960,000	49,427,000	89,387,000	83,503,000
Net assets at end of year	$ 42,986,000	$ 44,797,000	$ 87,783,000	$ 89,387,000

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

The Rancho Santa Fe Foundation

Statement of Functional Expenses

(Rounded to nearest hundredth)

Year ended December 31,

	Program Services		Supporting Services		2018
	Grants	Other Program Expenses	Fundraising	General and Administrative	Total
Program Grants	$ 7,729,000	$ -	$ -	$ -	$ 7,729,000
Salaries	-	119,200	141,600	324,200	585,000
Rent	-	21,200	21,200	21,200	63,600
Employee Benefits	-	8,900	14,700	32,300	55,900
Legal	-	-	-	46,200	46,200
Payroll Taxes	-	9,100	10,900	24,900	44,900
Accounting	-	1,100	1,400	40,900	43,400
Information Technology	-	800	-	37,000	37,800
Consulting Services	-	7,000	-	18,900	25,900
Dues and Subscriptions	-	7,500	7,500	7,500	22,500
Insurance	-	800	1,000	20,500	22,300
Common Area Charges	-	7,200	7,200	7,200	21,600
Donor Development	-	-	18,700	-	18,700
Marketing and Public Relations	-	-	18,600	-	18,600
Office Expense	-	8,200	3,600	3,500	15,300
Utilities	-	4,700	4,700	4,700	14,100
Depreciation	-	700	700	11,400	12,800
Meetings	-	4,900	-	7,600	12,500
Travel	-	-	-	8,600	8,600
Printing and Reproduction	-	2,700	1,800	1,800	6,300
Professional Development	-	-	-	4,600	4,600
Bank Service Charges	-	600	-	3,500	4,100
Miscellaneous Taxes	-	-	-	2,000	2,000
Postage and Shipping	-	700	500	500	1,700
Interest Expense	-	200	200	200	600
Total Expenses	$ 7,729,000	$ 205,500	$ 254,300	$ 629,200	$ 8,818,000
% of Total Expenses	88%	2%	3%	7%	100%

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

The Rancho Santa Fe Foundation

Statements of Cash Flows

(Rounded to the nearest thousandth)

Years ended December 31,

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (1,604,000)	$ 5,884,000
Adjustments and reclassifications to reconcile change in net assets to net cash from operating activities:		
Realized and unrealized net (gain) loss on investments	6,723,000	(9,404,000)
Contribution of stock and securities	(6,862,000)	(1,567,000)
Contributions restricted for long-term purposes	(14,000)	(1,217,000)
Depreciation	13,000	13,000
Change in value of split interest agreements	(7,000)	(22,000)
Change in value of liabilty under unitrust agreement	7,000	(6,000)
Change in value of contribution receivable	-	3,314,000
Loss on disposal of fixed asset	-	1,000
Increase (decrease) in cash resulting from changes in:		
Contributions receivable	(209,000)	(316,000)
Assets held under unitrust agreement	(62,000)	17,000
Other assets	(1,000)	5,000
Grants payable and accrued expenses	(34,000)	61,000
Assets held for other agencies	(1,961,000)	5,757,000
Net cash from operating activities	(4,011,000)	2,520,000
Cash flows from investing activities:		
Purchases of investments	(65,396,000)	(41,222,000)
Proceeds from sale of investments	70,647,000	37,306,000
Purchases of equipment	(6,000)	(11,000)
Net cash from investing activities	5,245,000	(3,927,000)
Cash flows from financing activities:		
Investment in permanent endowment	14,000	1,217,000
Payments on capital lease obligation	(2,000)	(2,000)
Net cash from financing activities	12,000	1,215,000
Net increase (decrease) in cash and cash equivalents	1,246,000	(192,000)
Cash and cash equivalents at beginning of year	799,000	991,000
Cash and cash equivalents at end of year	$ 2,045,000	$ 799,000

Supplemental Disclosure of Cash Flow Information

	2018	2017
Cash paid during the year for:		
Interest on capital leases	$ 1,000	$ 1,000

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

(1) Organization and Significant Accounting Policies

(a) Organization

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

(b) Method of Accounting

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

(c) Basis of Presentation

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

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

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

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

(c) Basis of Presentation, cont'd

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

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets, such as the donor stipulated time period has elapsed, are reported as "net assets released from restriction" between the classes of net assets.

(d) Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset classification and are presented to provide a basis for comparison to financial information for 2018. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for 2017, from which the summarized information was derived.

(e) Cash and Cash Equivalents

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

(f) Concentration of Credit Risk

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

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

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

(g) Concentration of Revenue

During 2018, the Foundation received three significant contributions that combined approximated 47% of total gifts and bequests. All these contributions were additions to existing donor advised funds without donor restrictions.

(h) Investments

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

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

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

(i) Assets Held Under Unitrust Agreement

In 2015, the Foundation received a charitable remainder trust designating the Foundation as trustee and charitable remainder beneficiary. Under the terms of the trust agreement, the Foundation makes distributions to income beneficiaries for the life of the beneficiaries. Upon the death of the income beneficiaries, 50% of assets remaining in the trust will be distributed to a nonprofit beneficiary and the final 50% remaining interest will be transferred to the Foundation to an established permanent endowment. Assets held in this charitable remainder trust totaled $357,000 at December 31, 2018 are reported at fair market value based on current quoted market prices on the statement of financial position as Assets held under unitrust agreement. On an annual basis, the Foundation revalues the liability based on actuarial assumptions. The present value of the estimated future payments ($317,000 at December 31, 2018) is calculated using a discount rate of 5% and recent life expectancy tables.

(j) Split-Interest Gifts

The Foundation is a beneficiary of a certain trust fund held by others and has recorded an asset for the net present value of the estimated future amount to be received from such trust included in contributions receivable at December 31, 2018. The charitable remainder trust is an irrevocable trust established in connection with a split-interest agreement, in which the donor or a third-party beneficiary receives specified distributions during the agreement's term. Upon termination of the trust, the Foundation will receive a portion of the assets remaining in the trust. The present value is calculated by using recent life expectancy tables and a discount rate of 3.6% as of December 31, 2018.

(k) Depreciation

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

(l) Assets Held for Other Agencies

The Foundation receives contributions on behalf of unaffiliated not-for-profit agencies, which are not reflected in the Foundation's statement of activities as they do not represent revenue to the Foundation. The total amounts of these managed assets are however reported as offsetting assets and liabilities on the Foundation's statement of financial position. At December 31, 2018, the total amount of these monies held for other agencies was $28,423,000.

(m) Functional Allocation of Expenses

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

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

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

(n) Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in computing the estimated future cash flow of deferred gifts and unitrust liabilities and the allocation of common expenses over program functions.

(o) Income Tax Status

The Foundation is exempt from income taxes under the current provisions of Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Franchise Tax Code. The Foundation, however, may be subject to tax on income which is not related to its exempt purpose. The Foundation had no unrelated business income tax for the year ended December 31, 2018.

At December 31, 2018, the federal statute of limitations remains open for 2015 through 2018 years. The statute of limitations for the state income tax returns remains open for the 2014 through 2018 years.

(p) Earnings (Losses) on Discretionary Funds

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

(q) Fair Value Measurements

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

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

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

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

(q) Fair Value Measurements, cont'd

The Foundation endeavors to utilize the best available information in measuring fair value. The following table summarizes the valuation of the financial instruments in accordance with the guidance's pricing levels as of December 31, 2018. There were no Level 2 financial instruments.

	Total	Unadjusted Quoted Market Prices (Level 1)	Unobservable Inputs (Level 3)
Money market funds	$ 485,000	$ 485,000	$ -
Mutual funds:			
Domestic equities	35,399,000	35,399,000	-
Fixed income	40,121,000	40,121,000	-
Money market	9,934,000	9,934,000	-
Foreign equities	27,803,000	27,803,000	-
Charitable remainder trusts	206,000	-	206,000
Liability under unitrust agreement	(317,000)	-	(317,000)
Totals	$ 113,631,000	$ 113,742,000	$ (111,000)

Changes in Level 3 financial instruments during 2018 were as follows:

	Charitable Remainder Trusts	Liability Under Unitrust Agreement
Financial instruments, beginning of year	$ 199,000	$ (372,000)
Distribution from split-interest agreement	-	-
Change in value of existing split-interest agreements	7,000	(7,000)
Total gains (realized and unrealized)	-	21,000
Distributions	-	41,000
Financial instruments , end of year	$ 206,000	$ (317,000)

(q) Fair Value Measurements, cont'd

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

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values
Charitable remainder trusts	$206,000	Present value of beneficial interests	Discount Rate	3.6%
			Growth Rate	6.2%
			Payout Rate	6.0%
			Years remaining	16.0
Liability under unitrust agreement	$(317,000)	Present value of future distributions	Discount Rate	5.0%
			Growth Rate	5.0%
			Payout Rate	8.9%
			Years remaining	16.0

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

(r) New Accounting Pronouncement

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. This guidance revises the not-for-profit reporting model and requires expenses to be disclosed by both functional and natural classification, reduces the net asset classifications to two (with and without donor restrictions), and requires new disclosures on liquidity. The guidance is effective for fiscal years beginning after December 15, 2017. The ASU has been applied retrospectively to all periods presented. As a result, the Statement of Financial Position and Statement of Activities for 2017 presented in this year's consolidated financial statements are not exact replicas of those published in 2018.

(2) Liquidity and Availability

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

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

The Foundation's board-designated endowments and those endowments that have been donor-designated for discretionary grantmaking are subject to an annual spending rate of 5.0%. A spendable amount of $282,000 will be made available for grantmaking and administrative expenses from these endowments during 2018.

The table below presents the financial assets available for general expenditures within one year at December 31, 2018:

Cash and cash equivalents	$ 1,908,000
Contributions receivable	839,000
Short-Term Investments	41,097,000
Long-Term Investments made available for current use	282,000
	$ 44,126,000

(3) Investments

Marketable securities consist of the following at December 31, 2018:

Mutual funds:	
Domestic equities	$ 35,399,000
Fixed income	40,121,000
Money market	9,934,000
Foreign equities	27,803,000
Total investments	113,257,000
Less investments held for other agencies	(28,228,000)
Less assets held under unitrust agreement	(357,000)
	$ 84,672,000

(4) Contributions Receivable

Contributions receivable at December 31, 2018, reported as a component of net assets with donor restrictions, totaled $1,045,000. Of this total, $839,000 is considered receivable in less than one year and is a result of year-end cash and stock contributions initiated in 2018 but not physically received by the Foundation until after January 1, 2019. The remaining $206,000 represents the net present value of proceeds from a split-interest agreement to be received at an undetermined time in the future.

(5) Other Assets

Other assets consist of the following at December 31, 2018:

Fixed assets, net of accumulated depreciation of $111,000	$	26,000
Prepaid expenses		5,000
	$	31,000

(6) Assets Held for Other Agencies

The amount held for other agencies as of December 31, 2018 consists of the following:

Investments	$	28,228,000
Cash and cash equivalents		175,000
Gifts Receivable		20,000
	$	28,423,000

(7) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at December 31, 2018:

Perpetually restricted	$	36,344,000
Charitable remainder trust		206,000
Time restricted		3,431,000
Purpose restricted		4,661,000
Term endowment		155,000
	$	44,797,000

(8) Endowment Net Asset Classifications

The Foundation's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as permitting the expenditure or accumulation of as much of permanent endowment funds as the Foundation determines to be prudent for the uses, benefits, purposes and duration for which each endowment fund is established, even if this results in the occasional invasion of an endowment's historic gift value. Thus, at times, the value of donor-restricted assets may fall below the level that a donor requires the Foundation to maintain in perpetuity. At December 31, 2018,

(8) Endowment Net Asset Classifications, Cont'd

deficiencies of this nature existed in twelve (12) such donor-restricted endowment funds, which together have an original gift value of $323,000, a current fair value of $320,000, and a deficiency of $3,000. These deficiencies resulted from unfavorable market fluctuations that occurred in the last two months of 2018. As of the publication of these statements, these funds remain "underwater" by a $1,000.

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

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

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

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

- The Foundation's basic endowment spending policy shall be to annually distribute up to the maximum allowable percentage as stated in the original Fund agreement (typically 5% plus administrative fees) from each endowed Fund. To determine the distributable amount for a given year, the specified percentage will be applied to the Fund's average value calculated over a twelve quarter period beginning with the most recent December 31st quarter-end (or fewer quarters where a Fund has not been in existence for a full twelve quarters).

- Unless there is specific wording in the original fund agreement clearly stating that the distribution formula called for in the fund agreement shall apply irrespective of the historic gift value of the fund (i.e. the cumulative total of all gifts), then the payout from an endowment fund may be limited per the following criteria if a fund's average value falls below the average historic gift value for the same twelve-quarter period:

    - Distributing amount(s) not to exceed the fund(s) earnings from the prior four quarters;

    - A temporary cessation of distributions from some or all fund(s) to protect the historic gift value or principal of the fund(s);

(8) Endowment Net Asset Classifications, Cont'd

- Reducing the distributable percentage from some or all fund(s) to something less than the permitted maximum(s) per the following table:

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

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

Endowment Net Asset Composition by Type of Fund as of December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	$ 715,000	$ -	$ 715,000
Donor-restricted endowment funds:			
Original donor – restricted gift amount and amounts required to be maintained in perpetuity	-	36,304,000	36,304,000
Accumulated gains	-	2,787,000	2,787,000
Total endowment funds	$ 715,000	$ 39,091,000	$ 39,806,000

(8) Endowment Net Asset Classifications, Cont'd

Changes in Endowment Net Assets for the year ending December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 779,000	$ 43,260,000	$ 44,039,000
Gifts, bequests & transfers	10,000	4,000	14,000
Change in value of unitrust agreement	-	(7,000)	(7,000)
Total investment return	(41,000)	(2,214,000)	(2,255,000)
Amounts appropriated for expenditure	(33,000)	(1,952,000)	(1,985,000)
Endowment net assets, end of year	$ 715,000	$ 39,091,000	$ 39,806,000

(9) Real Estate

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

(10) Charitable Real Estate Fund

The Rancho Santa Fe Foundation Charitable Real Estate Fund ("CREF") was established in February 2007 for the purpose of helping donors become impactful philanthropists through gifts of real estate. The CREF received its IRS Determination Letter in January 2008. There was no activity in the CREF in 2018.

(11) Benefit Plan

The Foundation sponsors a 401(k) savings plan for all eligible employees. Participants may contribute up to 86% of their eligible compensation. The Foundation matches 100% of the first 5% of the participant's eligible compensation. Total matching contributions were $28,000 in 2018.

(12) Operating Leases

During 2013, the Foundation signed a standard operating lease that expired in October 2018, which included an increase of 4% per annum. During 2014, the Foundation signed an amendment to that lease for an adjacent office space under similar terms and with the same expiration date. In 2018, the Foundation signed a 5-year extension to this lease with the same 4% per annum increases. The Foundation incurred rent expense of approximately $64,000 in 2018. Future minimum rental payments under this operating lease are as follows:

Year Ending December 31,	Lease Amount
2019	$ 66,000
2020	69,000
2021	71,000
2022	74,000
2023	64,000
Total	$ 344,000

(13) Subsequent Events

The Foundation has evaluated subsequent events through May 17, 2019, which is the date the financial statements were issued.