REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
AND SINGLE AUDIT REPORTS

SANTA FE INSTITUTE

December 31, 2017 and 2016

MOSSADAMS

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Report of Independent Auditors

To the Board of Trustees
Santa Fe Institute
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Santa Fe Institute (the Institute), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Institute as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2018, on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
July 26, 2018

Santa Fe Institute
Statements of Financial Position

ASSETS

	December 31, 2017	December 31, 2016
CURRENT ASSETS		
Cash and cash equivalents	$ 3,768,408	$ 2,154,153
Receivables		
Grants	313,731	324,564
Other, net	524,998	686,631
Investments	37,327,617	25,358,700
Other current assets	19,185	24,416
Total current assets	41,953,939	28,548,464
PROPERTY AND EQUIPMENT, net	9,587,596	9,587,481
Total assets	$ 51,541,535	$ 38,135,945

LIABILITIES AND NET ASSETS

	December 31, 2017	December 31, 2016
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 816,824	$ 996,877
Total current liabilities	816,824	996,877
NET ASSETS		
Unrestricted	12,793,297	7,712,669
Temporarily restricted	25,833,114	20,328,099
Permanently restricted	12,098,300	9,098,300
Total net assets	50,724,711	37,139,068
Total liabilities and net assets	$ 51,541,535	$ 38,135,945

See accompanying notes.

	Year Ended December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
ACtioN (formerly Business Network)	$ 1,592,790	$ -	$ -	$ 1,592,790
Government grants	1,782,567	-	-	1,782,567
Gifts, tuition, and non-government grants	6,169,447	2,126,955	3,000,000	11,296,402
Interest income	117,597	449,386	-	566,983
Realized/unrealized gain on investments	2,288,704	6,577,490	-	8,866,194
Net assets released from restrictions -				
Satisfaction of restrictions	3,648,816	(3,648,816)	-	-
Total revenues, gains and other support	15,599,921	5,505,015	3,000,000	24,104,936
EXPENSES				
Research programs	6,436,067	-	-	6,436,067
Education programs	1,232,989	-	-	1,232,989
Support services	2,276,292	-	-	2,276,292
Development and fundraising	269,660	-	-	269,660
Depreciation	304,285	-	-	304,285
Total expenses	10,519,293	-	-	10,519,293
CHANGES IN NET ASSETS	5,080,628	5,505,015	3,000,000	13,585,643
NET ASSETS, beginning of year	7,712,669	20,328,099	9,098,300	37,139,068
NET ASSETS, end of year	$ 12,793,297	$ 25,833,114	$ 12,098,300	$ 50,724,711

Santa Fe Institute
Statements of Activities (continued)

	Year Ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS (LOSSES) AND OTHER SUPPORT				
ACtioN (formerly Business Network)	$ 1,103,962	$ -	$ -	$ 1,103,962
Government grants	1,008,784	-	-	1,008,784
Gifts, tuition, and non-government grants	3,455,597	4,277,455	1,254,887	8,987,939
Interest income	108,787	580,060	-	688,847
Realized/unrealized loss on investments	50,060	1,255,726	-	1,305,786
Net assets released from restrictions - Satisfaction of restrictions	3,126,492	(3,126,492)	-	-
Total revenues, gains and other support	8,853,682	2,986,749	1,254,887	13,095,318
EXPENSES				
Research programs	6,059,939	-	-	6,059,939
Education programs	1,185,024	-	-	1,185,024
Support services	2,223,883	-	-	2,223,883
Development and fundraising	366,200	-	-	366,200
Depreciation	436,116	-	-	436,116
Total expenses	10,271,162	-	-	10,271,162
CHANGES IN NET ASSETS	(1,417,480)	2,986,749	1,254,887	2,824,156
NET ASSETS, beginning of year	9,130,149	17,341,350	7,843,413	34,314,912
NET ASSETS, end of year	$ 7,712,669	$ 20,328,099	$ 9,098,300	$ 37,139,068

	Year Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 13,585,643	$ 2,824,156
Adjustments to reconcile change in net assets		
to cash provided by operating activities		
Depreciation	304,285	436,116
Donated assets	(295,400)	-
Realized/unrealized gain on investments	(8,866,194)	(1,305,786)
Writeoff of ACtioN receivables	160,000	-
Changes in assets and liabilities		
Grants receivable	10,833	149,665
Other receivables	1,633	107,318
Other current assets	5,231	(10,554)
Accounts payable and accrued liabilities	(180,053)	90,395
Net cash provided by operating activities	4,725,978	2,291,310
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(8,937,125)	(30,877,251)
Proceeds of investments sold	5,834,402	29,425,110
Purchase of fixed assets	-	(5,195)
Net cash used for investing activities	(3,102,723)	(1,457,336)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,623,255	833,974
CASH AND CASH EQUIVALENTS, beginning of year	2,145,153	1,320,179
CASH AND CASH EQUIVALENTS, end of year	$ 3,768,408	$ 2,154,153
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES		
Non-cash donation of assets	$ 295,400	$ -

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

Santa Fe Institute (the Institute), a not-for-profit New Mexico corporation, was organized to create a new kind of scientific research community, to pursue emerging trans-disciplinary science. Its primary mission is to conduct research in the physical, biological and social sciences, to catalyze new collaborative projects that break down barriers between traditional disciplines, to spread its ideas and methodologies to other scientists via educational programs, and to encourage the practical application of its results. Funding for the operation of the Institute comes from government, foundations, corporations, and individual contributions.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The Institute prepares its financial statements in accordance with generally accepted accounting principles (GAAP) in the United States of America on the accrual basis of accounting.

Basis of Presentation

The Institute reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless otherwise provided by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts, and income and gains which can be expended but for which restrictions have not yet been met. Such restrictions include restrictions where donors have specified the purpose for which the net assets are to be spent, or time limitations imposed by donors or implied by the nature of the gift (capital projects, unconditional promises to give to be paid in the future, life income funds) as well as use restrictions imposed by internal policies.

Permanently Restricted Net Assets

Permanently restricted net assets include the historical dollar amounts of gifts and investment earnings required by donors to be permanently retained.

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue Recognition
The Institute 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Institute reports gifts of land, buildings, and equipment as unrestricted support unless restrictions are placed on the asset by the donor. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. The Institute offers a business network membership program (ACtioN). ACtioN revenues are recognized when membership fees are received and are reported as unrestricted.

Grants Receivable
Grants receivable are amounts due from various federal, foundation and corporate grants as of year-end. Grants receivable balances result primarily from unreimbursed grant expenditures as of the end of the fiscal year. Uncollectible grants receivable are expected to be immaterial.

Other Receivables
Other receivables are amounts due from various sources as of year-end. The Institute determines its allowance for other receivables considering their knowledge of collectability.

Donations and In-Kind Contributions
Donated assets, including investments, and in-kind contributions are recorded at their estimated fair market value at the date of receipt.

Cash and Cash Equivalents
For purposes of the statements of cash flows, the Institute considers all money on deposit in bank accounts, with an original maturity date of three months or less to be cash equivalents.

Investments
Investments consist of equity stock and mutual funds which are recorded at fair value in accordance with ASC 820, Fair Value Measurements and Disclosures. Realized and unrealized gains and losses are recognized in the statement of activities.

Property and Equipment
Property and equipment are stated at cost or fair market value when received, if donated. Provision for depreciation is computed using the straight-line method over the estimated useful life of the property. Furniture, equipment, computers and software over $5,000 is capitalized and depreciated over 3-10 years. Buildings and improvements and capitalized interest are depreciated over 30-39 years. Certain computer equipment items have been purchased with federal funds but vest with the Institute at the end of the applicable grant period.

Note 1 – Summary of Significant Accounting Policies (continued)

Income Taxes
The Institute files an exempt organization return in the U.S. federal jurisdiction. The Institute is no longer subject to income tax examinations by taxing authorities for years before 2014 for its federal filings. The Institute has no unrecognized tax benefit which would require an adjustment to the January 1, 2017 beginning balance of net assets and had no unrecognized tax benefits at December 31, 2017.

New Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In August 2015, the FASB issued ASU No. 2015-14, "Deferral of the Effective Date." The amendments in this update defer the effective date of ASU 2014-09 for all entities by one year. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018; early adoption is permitted. Companies have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. The Institute is currently evaluating the impact of this ASU.

In August 2016, FASB issued ASU No. 2016-14, "Not-for-Profit Entities – Presentation of Financial Statements of Non-for-Profit Entities (Topic 958)." ASU 2016-14 changes the presentation and disclosure requirement for not-for-profit entities to provide more relevant information of their resources effective for all entities for periods beginning after December 15, 2017. The Institute is currently evaluating the impact of this ASU.

Subsequent Events
Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Institute recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Institute's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Institute has evaluated subsequent events through July 26, 2018, which is the date the financial statements are available to be issued.

Note 2 – Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Note 2 – Fair Value Measurements (continued)

Basis of Fair Value Measurement –

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Corporate stock – Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds – Valued at the net asset value (NAV) of shares held by the Institute at year end using prices quoted by the relevant pricing agent.

Hedge fund – Valued at fair value of the fund's net assets value (NAV) equivalent as of the measurement date as a practical expedient, as determined by the Institute, in instances where there is not a readily determinable fair value. In determining fair value, the Institute utilizes valuations provided by the investment funds. The investment funds value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the funds, which may include private placements and other securities for which prices are not readily available, are determined by the managers of the investment funds, which in turn is based on the most recent information available to the fund manager for the underlying, including the audited financial statements of the underlying funds, and may reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

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

Note 2 – Fair Value Measurements (continued)

The following table is a summary of the Institute's assets valued at fair value as of December 31, 2017 and 2016 using Level 1 measurements and NAV practical expedient:

	2017	2016
Mutual funds	$ 14,786,426	$ 11,365,996
Corporate stock	13,550,495	9,307,576
Equities	-	1,499,488
Total assets in the fair value hierarchy - Level 1	28,336,921	22,173,060
Investment measured at NAV practical expedient	8,990,696	3,185,640
Investments at fair value	$ 37,327,617	$ 25,358,700

The following summarizes information related to the investment whose fair value is determined based upon NAV – practical expedient and has redemption restrictions:

	2017			
	Estimated Fair Value	Redemption Frequency	Redemption Notice Period	Underfunded Commitments
Hedge Fund	$ 8,990,696	Quarterly	30 days	$ -

Gains and Losses (realized and unrealized) included in changes in net assets for the years ended December 31, 2017 and 2016 were $8,866,194 and $1,305,786 and are reported on the statements of activities, respectively.

Note 3 – Property and Equipment

The following is a summary of property and equipment at December 31:

	2017	2016
Assets not being depreciated:		
Land	$ 4,774,192	$ 4,774,192
Artwork	378,550	74,150
Total assets not being depreciated	5,152,742	4,848,342
Assets being depreciated:		
Building and improvements	8,874,374	8,874,374
Ground improvements	189,884	189,884
Equipment	215,740	215,740
Computer equipment and software	1,069,457	1,069,457
Furniture and fixtures	244,170	244,170
Total assets being depreciated	10,593,625	10,593,625
Less accumulated depreciation	(6,158,771)	(5,854,486)
Capital assets being depreciated, net	4,434,854	4,739,139
Total capital assets, net	$ 9,587,596	$ 9,587,481

Depreciation expense is $304,285 and $436,116 for the years ended December 31, 2017 and 2016, respectively.

Note 4 – Net Asset Restrictions

Temporarily restricted net assets were $25,833,114 and $20,328,099 at December 31, 2017 and 2016, respectively. As of December 31, 2017, $20,383,114 was available to fund various research programs and $5,450,000 represents the value of property and buildings that were contributed to the Institute during 2012 against which various use and resale restrictions exists.

Permanently restricted net assets were $12,098,300 and $9,098,300 at December 31, 2017 and 2016, respectively. Earnings on permanently restricted assets are restricted based on donor specified restrictions.

Note 5 – Pension Plan

The Institute has a defined contribution pension plan covering all employees. The plan is administered by the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The employer's match is currently 4% of contributing employees' salaries. Pension expense was $164,677 for 2017 and $168,907 in 2016.

Note 6 – Concentrations of Credit Risk

The Institute maintains a majority of its cash accounts in one commercial bank. The amount on deposit in interest bearing accounts and certificates of deposit at and during the years ended December 31, 2017 and 2016 exceeded the insurance limits of the Federal Deposit Insurance Corporation. At December 31, 2017 and 2016, the Institute's uninsured balance was $1,698,639 and $721,173, respectively.

Note 7 – Endowment

The Institute's endowment consists of a single pooled fund. All endowments are classified as permanently restricted as per the endowment agreements. Income is available and used for purposes deemed appropriate by the Institute subject to use restrictions imposed by donor gift agreements informed by internal policies. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Total endowment funds were $14,710,997 and $9,200,178 at December 31, 2017 and 2016, respectively.

Interpretation of Relevant Law

The Board of Trustees of the Institute has interpreted the applicable governing law (Article 9, Uniform Management of Institutional Funds Act of the State of New Mexico) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by the previously referred to act.

Note 7 – Endowment (continued)

The endowment net asset composition by type consisted of entirely donor-restricted endowment funds as of December 31, 2017 and 2016.

Changes in endowment net assets for the fiscal year ended December 31, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 101,878	$ 9,098,300	$ 9,200,178
Investment return			
Investment income	204,422	-	204,422
Net appreciation (realized and unrealized)	2,761,312	-	2,761,312
Total investment return	2,965,734	-	2,965,734
Contributions, reversions and changes in donor restrictions	-	3,000,000	3,000,000
Appropriation of endowment assets for expenditure	(454,915)	-	(454,915)
Endowment net assets, end of year	$ 2,612,697	$ 12,098,300	$ 14,710,997

Changes in endowment net assets for the fiscal year ended December 31, 2016:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (268,052)	$ 7,843,413	$ 7,575,361
Investment return			
Investment income	294,520	-	294,520
Net depreciation (realized and unrealized)	530,325	-	530,325
Total investment return	824,845	-	824,845
Contributions, reversions and changes in donor restrictions	-	1,254,887	1,254,887
Appropriation of endowment assets for expenditure	(454,915)	-	(454,915)
Endowment net assets, end of year	$ 101,878	$ 9,098,300	$ 9,200,178

Note 7 – Endowment (continued)

Strategies Employed for Achieving Objectives
To satisfy its long-term rate of return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation that, as of December 31, 2017, places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints. A separate pool was established in 2016 for temporarily restricted assets that do not allow for reduction of the corpus associated with investment losses.

Spending Policy and how the Investment Objectives Relate to Spending Policy
Appropriation of funds is determined, in part, based on donor stipulations and approved by the Institute's Finance Committee.

Return Objectives and Risk Parameters
The objective of the investment program is to enhance the Institute's endowment fund portfolio through total investment return, and to provide current operating income through the interest, capital gains, and dividends that the fund generates. The investment program incorporates prudent risk constraints.

Supplementary Information

Santa Fe Institute
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Program Title	Federal CFDA Number	Grant Number or Pass-through Number	Passed Through to Subrecipients	2017 Federal Expenditures
Research and Development Cluster of Programs (Major Program):				
National Science Foundation				
Direct Awards				
Mathematical and Physical Sciences	47.049	PHY-1240192	$ -	$ 38,430
Mathematical and Physical Sciences	47.049	DMR-1608211	-	63,387
Mathematical and Physical Sciences	47.049	CHE-1648973	154,929	297,254
Mathematical and Physical Sciences	47.049	PHY-1741021	-	33,530
Mathematical and Physical Sciences	47.049	PHY-1740919	-	38,128
Mathematical and Physical Sciences	47.049	PHY-17444320	-	86,888
Mathematical and Physical Sciences	47.049	DMR-1623243	-	50,557
Total Mathematical and Physical Sciences CFDA			154,929	608,174
Computer and Information Science and Engineering	47.070	CNS-1240992	135,443	138,337
Computer and Information Science and Engineering	47.070	ACI-1358567	-	64,649
Total Computer and Information Science and Engineering CFDA			135,443	202,986
Biological Sciences	47.074	IOS-1656849	-	38,714
Biological Sciences	47.074	MCB-1724627	-	41,060
Biological Sciences	47.074	DEB-1745355	-	3,710
Biological Sciences	47.074	IOS-1545888	-	33,220
Total Biological Sciences CFDA			-	116,704
Social, Behavioral, and Economic Sciences	47.075	SMA-1312294	-	13,876
Social, Behavioral, and Economic Sciences	47.075	SMA-1329089	-	14,828
Social, Behavioral, and Economic Sciences	47.075	SES-1560592	-	68,739
Social, Behavioral, and Economic Sciences	47.075	SMA-1620462	48,860	81,548
Social, Behavioral, and Economic Sciences	47.075	SMA-1633747	-	29,376
Social, Behavioral, and Economic Sciences	47.075	SMA-1735884	-	227
Total Social and Behavioral, and Economic Sciences CFDA			48,860	208,594
Total Direct National Science Foundation			**339,232**	**1,136,458**
Pass-Through				
University of Arizona				
Geosciences	47.050	SUB No. 354350 1642894	-	67,979
Total Pass-Through University of Arizona and National Science Foundation			**-**	**67,979**
Total National Science Foundation			**339,232**	**1,204,437**
Department of Defense				
Department of the Army - U.S. Army Research Office				
Direct Awards				
Basic Scientific Research	12.431	W911NF-17-1-0136	-	15,000
Basic Scientific Research	12.431	W911NF-15-1-0127	-	168,864
Total Basic Scientific Research CFDA			-	**183,864**
Basic, Applied, and Advanced Research in Science and Engineering	12.630	W911NF-12-1-0097	-	75,226
Total Direct Department of the Army - US Army Research Office			-	**259,090**
Pass-Through				
University of Southern				
Basic Scientific Research	12.431	SUB 63911022 W911NF-15-1-0259	-	35,801
Total Pass-Through University of Southern and Department of the Army - US Army Research Office			-	**35,801**
Total Department of the Army - US Army Research Office			-	**294,891**
Department of Energy				
Pass-Through				
California Institute of Technology				
Office of Science Financial Assistance Program	81.049	SUB 65Q-1097563 DE-SC0016469	-	1,037
Total Pass-Through Department of Energy			-	**1,037**
U.S. Department of Commerce				
National Institute of Standards and Technology				
Direct Awards				
Measurement and Engineering Research and Standards	11.609	70NANB12H192	-	9,440
Total Direct National Institute of Standards and Technology			-	**9,440**
National Aeronautics and Space Administration				
Direct Awards				
Aeronautics	43.002	NNX14AI11G	25,389	262,122
Total Direct National Aeronautics and Space Administration			**25,389**	**262,122**
Pass-Through				
Georgia Institute of Technology				
Science	43.001	SUB RG022-G1 NNX15AR33G	-	9,245
University of Wisconsin - Madison				
Science	43.001	SUB 775K983 80NSSC17K0296	-	1,394
Total Pass-Through National Aeronautics and Space Administration			-	**10,639**
Total National Aeronautics and Space Administration			**25,389**	**272,761**
Total Federal Expenditures and Total Research and Development Cluster of Programs			**$ 364,621**	**$ 1,782,566**

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Santa Fe Institute (the Institute) under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Institute.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, and Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. Entity has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Federal Cluster

All of the programs in the schedule of expenditures of federal awards are considered part of the Institute's research and development cluster.

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Santa Fe Institute
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Santa Fe Institute, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Fe Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Fe Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Fe Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Fe Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Santa Fe Institute's Response to Findings

Santa Fe Institute's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Santa Fe Institute's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
July 26, 2018

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Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Trustees
Santa Fe Institute
Santa Fe, New Mexico

Report on Compliance for the Major Federal Program

We have audited Santa Fe Institute's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Santa Fe Institute's major federal program for the year ended December 31, 2017. Santa Fe Institute's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Santa Fe Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Fe Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Santa Fe Institute's compliance.

Opinion on the Major Federal Program

In our opinion, Santa Fe Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of Santa Fe Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Fe Institute's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santa Fe Institute's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

Santa Fe Institute's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Santa Fe Institute's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
July 26, 2018

Santa Fe Institute
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

CFDA Number(s)	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
Various	Research and Development Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

FINDING 2017-001 – Significant Deficiency in Internal Control Over Compliance

CFDA Number(s)	*Program Name/Title*	*Federal Agency/ Pass-through Entity*	*Federal Award Number*	*Award Year*	*Questioned Costs*
Multiple	Research and Development Cluster	Multiple	Multiple	2017	Unknown

Criteria or specific requirement (including statutory, regulatory, or other citation) – Per 2 CFR 200.318, an entity must maintain records sufficient to detail the history of procurement. These records will include: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Per Santa Fe Institute’s internal policies, all purchases in excess of $25,000 (single transaction or cumulatively over a 12-month period) shall be made only from vendors/contractors whom have been selected as a result of a competitive analysis, and such analysis shall be documented.

Condition/context – During our testwork over the Research and Development Cluster, one contract out of four contracts tested did not have documented history of procurement.

Effect – The Institute is not adequately documenting history of procurement for contractors.

Cause – The Institute did not believe the purchases made to the vendor would exceed the Simplified Acquisition Threshold, and so did not follow their procurement process when initially entering the contract.

Recommendation – We recommend that the Institute monitor purchase totals by vendor to ensure that the proper procurement process is being followed for contracts that are nearing or exceeding the Simplified Acquisition Threshold.

Views of responsible officials and planned corrective actions – Management has reviewed the finding and has remedied the condition in 2018 by performing and documenting the selection analysis for the vendor and contract in question. Because of the limited number of caterers in the Santa Fe area, SFI has vetted the capabilities, prices, and capacity of the market and identified three companies that meet our criteria to support a professional level event. Criteria includes SFI’s discretion and judgment to ensure costs are appropriate, necessary and managed in a manner that minimizes costs to Federal awards. The vendor in question was identified as the preferred vendor of those three, and such selection has been documented. In addition, SFI exercises discretion and judgment by setting up an upfront event budget for all costs that are prudent and meet individual awards specifications. The selected caterer must then produce the event within that budget.