

SANTA FE INSTITUTE
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2019 AND 2018



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INDEPENDENT AUDITORS' REPORT

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, a nonprofit organization which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit 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 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 auditors' 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 Santa Fe Institute as of December 31, 2019 and 2018, 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 – Schedule of Expenditures of Federal Awards

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 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 November 5, 2020, on our consideration of Santa Fe 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 Santa Fe 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 Santa Fe Institute's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 5, 2020

**SANTA FE INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

| ASSETS | 2019 | 2018 |
|---|-------------------|-------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 2,008,588 | \$ 3,708,639 |
| Receivables: | | |
| Grants | 280,488 | 501,815 |
| Other Receivables | 623,700 | 367,773 |
| Pledges Receivable | 100,000 | - |
| Prepaid Expenses | 11,627 | 8,073 |
| Endowment Assets Appropriated for Expenditure | 527,012 | 521,080 |
| Total Current Assets | 3,551,415 | 5,107,380 |
| NONCURRENT ASSETS | | |
| Pledges Receivable | 646,321 | - |
| Property and Equipment, Net | 12,517,160 | 10,080,061 |
| Related Party Receivable | 324,198 | 424,746 |
| Investments | 32,881,753 | 28,187,905 |
| Total Noncurrent Assets | 46,369,432 | 38,692,712 |
| Total Assets | \$ 49,920,847 | \$ 43,800,092 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 287,359 | \$ 257,441 |
| Accrued Payroll and Related Liabilities | 643,385 | 457,003 |
| Deferred Revenue | 131,167 | 150,833 |
| Total Current Liabilities | 1,061,911 | 865,277 |
| NET ASSETS | | |
| Without Donor Restrictions: | | |
| Undesignated | 9,781,799 | 10,855,255 |
| With Donor Restrictions: | | |
| Purpose Restrictions | 23,886,799 | 20,406,450 |
| Passage of Time | 746,321 | - |
| Subject to Appropriation | 2,345,717 | (425,190) |
| Perpetual in Nature | 12,098,300 | 12,098,300 |
| Total With Donor Restrictions | 39,077,137 | 32,079,560 |
| Total Net Assets | 48,858,936 | 42,934,815 |
| Total Liabilities and Net Assets | \$ 49,920,847 | \$ 43,800,092 |

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|---------------|
| REVENUE, SUPPORT, AND GAINS | | | |
| ACtioN (Formerly Business Network) | \$ 1,379,708 | \$ - | \$ 1,379,708 |
| Government Grants | 1,920,851 | - | 1,920,851 |
| Gifts and Nongovernment Grants | 2,881,118 | 2,467,749 | 5,348,867 |
| Tuition | 411,416 | - | 411,416 |
| Net Investment Income (Loss) | 1,963,019 | 7,215,089 | 9,178,108 |
| Net Assets Released from Restrictions - Satisfaction of Restrictions | 2,685,261 | (2,685,261) | - |
| Total Revenue, Support, and Gains | 11,241,373 | 6,997,577 | 18,238,950 |
| EXPENSES | | | |
| Program Service | 8,833,503 | - | 8,833,503 |
| Fundraising and Development | 204,830 | - | 204,830 |
| Management and General | 3,276,496 | - | 3,276,496 |
| Total Expenses | 12,314,829 | - | 12,314,829 |
| CHANGE IN NET ASSETS | (1,073,456) | 6,997,577 | 5,924,121 |
| Net Assets - Beginning of Year | 10,855,255 | 32,079,560 | 42,934,815 |
| NET ASSETS - END OF YEAR | \$ 9,781,799 | \$ 39,077,137 | \$ 48,858,936 |

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|---------------|
| REVENUE, SUPPORT, AND GAINS | | | |
| ACtioN (Formerly Business Network) | \$ 1,561,150 | \$ - | \$ 1,561,150 |
| Government Grants | 1,580,238 | - | 1,580,238 |
| Gifts and Nongovernment Grants | 4,811,707 | 1,682,223 | 6,493,930 |
| Tuition | 475,232 | - | 475,232 |
| Net Investment Income (Loss) | (253,000) | (5,932,352) | (6,185,352) |
| Net Assets Released from Restrictions - Satisfaction of Restrictions | 1,601,725 | (1,601,725) | - |
| Total Revenue, Support, and Gains | 9,777,052 | (5,851,854) | 3,925,198 |
| EXPENSES | | | |
| Program Service | 8,872,060 | - | 8,872,060 |
| Fundraising and Development | 297,411 | - | 297,411 |
| Management and General | 2,545,623 | - | 2,545,623 |
| Total Expenses | 11,715,094 | - | 11,715,094 |
| CHANGE IN NET ASSETS | (1,938,042) | (5,851,854) | (7,789,896) |
| Net Assets - Beginning of Year | 12,793,297 | 37,931,414 | 50,724,711 |
| NET ASSETS - END OF YEAR | \$ 10,855,255 | \$ 32,079,560 | \$ 42,934,815 |

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019**

| | Program Service | Management and General | Fundraising and Development | Total |
|----------------------------|---------------------|---------------------------|--------------------------------|----------------------|
| Salaries | \$ 4,212,585 | \$ 1,548,599 | \$ 175,497 | \$ 5,936,681 |
| Contract Labor | 763,822 | 479,626 | - | 1,243,448 |
| Taxes and Benefits | 791,203 | 335,882 | 29,133 | 1,156,218 |
| Lodging | 638,001 | 17,167 | - | 655,168 |
| Travel | 629,912 | 16,550 | - | 646,462 |
| Food & Beverage | 442,741 | 42,519 | 138 | 485,398 |
| Stipends | 324,084 | - | - | 324,084 |
| Depreciation | 227,713 | 25,301 | - | 253,014 |
| Office Expense | 63,881 | 157,124 | 2 | 221,007 |
| Technology | 82,541 | 135,362 | - | 217,903 |
| Occupancy | 189,515 | 21,057 | - | 210,572 |
| Insurance | 634 | 169,004 | - | 169,638 |
| Supplies | 92,738 | 75,832 | 60 | 168,630 |
| Subawards | 162,718 | - | - | 162,718 |
| Misc. | 68,148 | 54,382 | - | 122,530 |
| Maintenance and Repair | 14,919 | 101,670 | - | 116,589 |
| Dues and Subscriptions | 73,599 | 22,897 | - | 96,496 |
| Advertising | - | 69,208 | - | 69,208 |
| Honoraria | 54,750 | 1,000 | - | 55,750 |
| Taxes and Licenses | - | 3,315 | - | 3,315 |
| Total Expenses by Function | <u>\$ 8,833,503</u> | <u>\$ 3,276,496</u> | <u>\$ 204,830</u> | <u>\$ 12,314,829</u> |

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

| | <u>Program Service</u> | <u>Management and General</u> | <u>Fundraising and Development</u> | <u>Total</u> |
|----------------------------|----------------------------|-----------------------------------|--|----------------------|
| Salaries | \$ 3,683,047 | \$ 1,263,153 | \$ 216,971 | \$ 5,163,171 |
| Contract Labor | 1,342,658 | 408,762 | 7,545 | 1,758,965 |
| Taxes and Benefits | 717,402 | 244,795 | 45,428 | 1,007,625 |
| Lodging | 721,797 | 19,215 | 4,585 | 745,597 |
| Travel | 640,562 | 27,573 | 2,519 | 670,654 |
| Food & Beverage | 470,012 | 49,145 | 6,930 | 526,087 |
| Stipends | 307,672 | - | - | 307,672 |
| Depreciation | 266,356 | 29,595 | - | 295,951 |
| Technology | 63,925 | 155,913 | 5,278 | 225,116 |
| Office Expense | 57,450 | 104,754 | 7,298 | 169,502 |
| Occupancy | 137,997 | 15,333 | - | 153,330 |
| Insurance | 103 | 136,923 | - | 137,026 |
| Subawards | 130,555 | - | - | 130,555 |
| Supplies | 54,293 | 41,825 | 7,835 | 103,953 |
| Misc. | 66,604 | 24,004 | 5,835 | 96,443 |
| Maintenance and Repair | 15,376 | 60,216 | - | 75,592 |
| Advertising | - | 73,489 | - | 73,489 |
| Dues and Subscriptions | 61,418 | 8,477 | 461 | 70,356 |
| Taxes and Licenses | - | 3,290 | 720 | 4,010 |
| Total Expenses by Function | <u>\$ 8,872,060</u> | <u>\$ 2,666,462</u> | <u>\$ 311,405</u> | <u>\$ 11,715,094</u> |

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 5,924,121 | \$ (7,789,896) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities: | | |
| Depreciation | 253,014 | 295,951 |
| Realized and Unrealized (Gain) Loss on Investments | (6,117,971) | 6,698,433 |
| Debt Forgiveness - Principal | 100,000 | 100,000 |
| Debt Forgiveness - Interest | 7,270 | 5,405 |
| Changes in Assets and Liabilities: | | |
| Receivables | (680,373) | (561,010) |
| Other Current Assets | (3,554) | 11,112 |
| Current Liabilities | 89,364 | 48,453 |
| Net Cash Used by Operating Activities | <u>(428,129)</u> | <u>(1,191,552)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investments Purchased | (11,087,446) | (12,367,418) |
| Proceeds of Investments Sold | 9,815,524 | 14,947,493 |
| Purchase of Property and Equipment | - | (788,415) |
| Net Cash Provided (Used) by Investing Activities | <u>(1,271,922)</u> | <u>1,791,660</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,700,051) | 600,108 |
| Cash and Cash Equivalents - Beginning of Year | <u>3,708,639</u> | <u>3,108,531</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 2,008,588</u> | <u>\$ 3,708,639</u> |
| SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES | | |
| Debt Forgiveness - Principal | <u>\$ 100,000</u> | <u>\$ 100,000</u> |
| Debt Forgiveness - Interest | <u>\$ 7,270</u> | <u>\$ 5,405</u> |

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Santa Fe Institute (the Institute), a nonprofit 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.

Basis of Accounting

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

Net Assets

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 (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition (Continued)

The Institute reports gifts of land, buildings, and equipment as support without donor restrictions 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 support with donor restrictions. 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 also offers a business network membership program (ACtioN). ACtioN revenues are prorated over the membership term, which is a 12 month period. When revenue is recognized, membership fees are reported as increases in net assets without donor restrictions.

Conditional Grants

Revenue from conditional grants is deferred and recognized in the period to which conditions are satisfied. There were no conditional grants as of December 31, 2019 and 2018.

Use of Net Assets With Donor Restrictions

When expenses are incurred for which either net assets with or without donor restriction may be used, net assets with donor restriction are used first.

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 year. There were no uncollectible grants receivable as of December 31, 2019 and 2018.

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. There was no allowance for doubtful accounts as of December 31, 2019 and 2018.

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

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. 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.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Purchases of furniture, equipment, computers, and software over \$5,000 are capitalized and depreciated over 3 to 10 years. Buildings and improvements and capitalized interest are depreciated over 30 to 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.

Income Taxes

The Institute files an exempt organization return in the U.S. federal jurisdiction. The Institute has no unrecognized tax benefit which would require an adjustment to the January 1, 2019 beginning balance of net assets and had no unrecognized tax benefits at December 31, 2019.

Functional Allocation of Expenses

The costs of providing SFI's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Allocated costs are primarily made up of payroll and occupancy, which are allocated based on time and effort and square footage, respectively.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Reclassifications

Certain prior year amounts have been reclassified for consistent with the current year presentation. These reclassifications had no effect on the reported results of operations and are for presentation only.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

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, 2019 and 2018.

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

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Mutual Funds | \$ 12,522,750 | \$ 12,759,118 |
| Corporate Stock | 12,460,188 | 11,759,971 |
| Equities | - | - |
| Total Assets in the Fair Value Hierarchy - Level 1 | 24,982,938 | 24,519,089 |
| Investment Measured at NAV Practical Expedient | 8,425,827 | 4,189,896 |
| Investments at Fair Value | <u>\$ 33,408,765</u> | <u>\$ 28,708,985</u> |

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

| | Estimated Fair Value | Redemption Frequency | Redemption Notice Period | Underfunded Commitments |
|--------------------------|-------------------------|-------------------------|--------------------------------|----------------------------|
| <u>December 31, 2019</u> | | | | |
| Hedge Fund | \$ 8,425,827 | Quarterly | 30 Days | \$ - |
| <u>December 31, 2018</u> | | | | |
| Hedge Fund | \$ 4,189,896 | Quarterly | 30 Days | \$ - |

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|---|--------------------------|--------------------------|
| Assets Not Being Depreciated: | | |
| Land | \$ 4,774,193 | \$ 4,774,192 |
| Artwork | 546,254 | 497,441 |
| CIP | <u>3,038,350</u> | <u>561,787</u> |
| Total Assets Not Being Depreciated | 8,358,797 | 5,833,420 |
| Assets Being Depreciated: | | |
| Building and Improvements | 8,955,333 | 8,947,271 |
| Ground Improvements | 189,884 | 189,884 |
| Equipment | 219,036 | 216,740 |
| Computer Equipment and Software | 1,083,389 | 1,069,457 |
| Furniture and Fixtures | <u>335,227</u> | <u>278,010</u> |
| Total Assets Being Depreciated | 10,782,868 | 10,701,362 |
| Less: Accumulated Depreciation | <u>(6,624,505)</u> | <u>(6,454,721)</u> |
| Total Capital Assets Being Depreciated, Net | <u>4,158,363</u> | <u>4,246,641</u> |
| Total Capital Assets, Net | <u>\$ 12,517,160</u> | <u>\$ 10,080,061</u> |

NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods.

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Subject to Expenditure for Specified Purpose: | | |
| Various Research | \$ 18,436,799 | \$ 14,956,450 |
| Various Use and Resale | <u>5,450,000</u> | <u>5,450,000</u> |
| Total | 23,886,799 | 20,406,450 |
| Subject to Passage of Time: | | |
| Pledges Receivable | 746,321 | - |
| Subject to Appropriation: | | |
| Endowment Earnings | 2,345,717 | (425,190) |
| Not Subject to Appropriation: | | |
| Endowment Funds | <u>12,098,300</u> | <u>12,098,300</u> |
| Total Net Assets with Donor Restrictions | <u>\$ 39,077,137</u> | <u>\$ 32,079,560</u> |

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

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:

| | 2019 | 2018 |
|---------------------------------------|--------------|--------------|
| Satisfaction of Purpose Restrictions: | | |
| Various Research | \$ 2,158,249 | \$ 655,455 |
| Appropriation of Endowment Earnings | 527,012 | 521,080 |
| Underwater Endowment | - | 425,190 |
| Total | \$ 2,685,261 | \$ 1,601,725 |

NOTE 5 PLEDGES RECEIVABLE

Pledges receivable are discounted and recorded at the net present value of estimated future cash flows.

| | |
|--------------------------------------|------------|
| Expected Cash Collection | \$ 900,000 |
| Less: Discount to Present Value | (153,679) |
| Present Value of Pledges Receivables | \$ 746,321 |

The amount of pledges receivable expected to be collected in the next five years follows:

| Year | Amount |
|-------------------------|------------|
| 2020 | \$ 100,000 |
| 2021 | 100,000 |
| 2022 | 100,000 |
| 2023 | 100,000 |
| 2024 | 100,000 |
| Thereafter | 400,000 |
| Total Pledge Receivable | \$ 900,000 |

NOTE 6 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 \$180,688 and \$159,318 in 2019 and 2018, respectively.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 7 CONCENTRATION OF CREDIT RISK

The Institute maintains a majority of its cash accounts in one commercial bank, with the remainder being held with one investment broker. The amounts on deposit in interest bearing accounts and certificates of deposit at and during the years ended December 31, 2019 and 2018 exceeded the insurance limits of the Federal Deposit Insurance Corporation. At December 31, 2019 and 2018, the Institute's uninsured balance was \$1,578,433 and \$2,676,470, respectively.

NOTE 8 ENDOWMENT

The Institute's endowment consists of a single pooled fund. All endowments are classified as net assets with donor restrictions 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 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.

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 net assets with donor restrictions: (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 held in perpetuity is classified as subject to appropriation 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.

The endowment net asset composition by type consisted of entirely endowment funds with donor restrictions as of December 31, 2019 and 2018.

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

| | |
|---|----------------------|
| <u>December 31, 2019</u> | |
| Endowment Net Assets - Beginning of Year | \$ 11,673,110 |
| Net Investment Income (Loss) | 3,297,919 |
| Contributions, Reversions, and Changes in Donor Restrictions | - |
| Appropriation of Endowment Assets for Expenditure | (527,012) |
| Endowment Net Assets - End of Year | <u>\$ 14,444,017</u> |

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 ENDOWMENT (CONTINUED)

December 31, 2018

| | |
|---|-----------------------------|
| Endowment Net Assets - Beginning of Year | \$ 14,710,997 |
| Net Investment Income (Loss) | (2,516,807) |
| Contributions, Reversions, and Changes in Donor Restrictions | - |
| Appropriation of Endowment Assets for Expenditure | <u>(521,080)</u> |
| Endowment Net Assets - End of Year | <u><u>\$ 11,673,110</u></u> |

Due to unfavorable market fluctuations in 2018 that occurred shortly after the investments of new contributions for endowment funds not subject to appropriation, and continued appropriation for certain programs that were deemed prudent by the Board of Trustees, the endowment was underwater in the amount of \$425,190. As of December 31, 2019, there were no underwater endowment funds as the fair-market-value of underlying investments exceeded the net assets with donor restriction for endowment funds not subject to appropriation.

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, 2019, 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 net assets without restrictions 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.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 RELATED PARTY RECEIVABLE

Effective August 1, 2015, the Institute provided the President with three loans, each of which is documented by a Promissory Note prescribing interest compounded annually (at the then Applicable Federal Rate of 1.77%), repayment schedule, and consequences of default, among other terms. Principal and interest under these notes is due five years from the Effective Date. One of these loans, in the amount of \$300,000, plus accrued interest, will be forgiven in increments of \$100,000 on the third, fourth, and fifth anniversary of the Effective Date, respectively. The second of these loans, in the amount of \$100,000, plus accrued interest, will be forgiven in the event the Institute's perpetual endowment investment pool increases by at least \$20 million dollars within five years of the Effective Date. The third loan in the amount of \$100,000, is repayable in full within five years of the Effective Date.

The amount of principal and interest forgiven was \$107,270 and \$105,405 for December 31, 2019 and 2018, respectively.

NOTE 10 LIQUIDITY AND AVAILABILITY OF RESOURCES

SFI has a goal to maintain financial assets, which consist of cash, net realizable value of receivables, short-term investments, and endowment assets appropriate for expenditure to meet at a minimum of 60 days of normal operating expenses, which are, on average, approximately \$2 million. For purposes of analyzing resources available to meet general expenditures over a 12-month period, SFI considers all expenditures related to ongoing activities including governance, facilities, regulatory programs, member services, and publications. SFI includes in its consideration those expenditures covered by donor-restricted resources. As part of its liquidity management, excess cash will be invested in liquid income-producing instruments, to the extent that it is allowed by funding agencies.

Financial assets available to meet general expenditures are as follows as of December 31:

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Current Financial Assets | \$ 3,012,776 | \$ 4,578,227 |
| Endowment Assets Appropriated for General Expenditures | <u>527,012</u> | <u>521,080</u> |
| Total Financial Assets Available to Meet General Expenditures Over the Next 12 Months | <u>\$ 3,539,788</u> | <u>\$ 5,099,307</u> |

Furthermore, SFI has a goal to maintain cash and cash equivalents and investments in excess of net assets with donor restrictions to ensure the ability to hold net assets restricted in perpetuity and to meet purpose restrictions for various research. An analysis of net assets with donor restriction compared to cash and cash equivalents and investments on hand as is as follows as of December 31:

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

| | 2019 | 2018 |
|---|---------------|----------------|
| Net Assets with Donor Restriction | \$ 39,077,137 | \$ 32,079,560 |
| Long-term Investments | (32,881,753) | (28,187,905) |
| Contributed Property Restricted for Various Use and Resale | (5,450,000) | (5,450,000) |
| Amount in Excess (Deficit) of Donor Restrictions | \$ 745,384 | \$ (1,558,345) |

NOTE 11 CHANGE IN ACCOUNTING PRINCIPLE

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, Accounting Guidance for Contributions Received and Made. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) transactions within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. These financial statements reflect the adoption of ASU 2018-08 beginning January 1, 2018. The implementation of this standard had no impact on net assets as previously reported.

NOTE 12 SUBSEQUENT EVENTS

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Institute, COVID-19 may impact various parts of its 2020 operations and financial results including, but not limited to, costs for emergency preparedness and shortages of personnel. Management believes the Institute is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

NOTE 13 ACCOUNTING STANDARDS UPDATES

In May 2014, FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. Due to developments related to COVID-19, implementation of the standard was delayed for annual periods beginning after December 14, 2018, and will be effective for the Institute for annual periods beginning after December 15, 2019.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 13 ACCOUNTING STANDARDS UPDATES (CONTINUED)

Management is currently evaluating the impact of the amended revenue recognition guidance on its consolidated financial statements.

**SANTA FE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019**

| Federal Grantor/Pass through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|---|---------------------------|--|---------------------------------------|-------------------------|
| Research and Development Cluster of Programs (Major Program): | | | | |
| National Science Foundation | | | | |
| Direct Awards: | | | | |
| Mathematical and Physical Sciences | 47.049 | DMR-1608211 | \$ - | \$ 126,919 |
| Mathematical and Physical Sciences | 47.049 | CHE-1648973 | 146,248 | 429,478 |
| Mathematical and Physical Sciences | 47.049 | PHY-1838420 | - | 64,689 |
| Mathematical and Physical Sciences | 47.049 | PHY-2002935 | - | 84,548 |
| Total Mathematical and Physical Sciences CFDA | | | <u>146,248</u> | <u>705,634</u> |
| Biological Sciences | 47.074 | IOS-1656849 | - | 24,467 |
| Biological Sciences | 47.074 | DEB-1745355 | - | 59,103 |
| Biological Sciences | 47.074 | DEB-1830688 | - | 14,289 |
| Biological Sciences | 47.074 | DBI-1927319 | - | 6,483 |
| Total Biological Sciences CFDA | | | <u>-</u> | <u>104,342</u> |
| Social, Behavioral, and Economic Sciences | 47.075 | SMA-1620462 | 15,970 | 231,080 |
| Social, Behavioral, and Economic Sciences | 47.075 | SES-1757211 | - | 157,886 |
| Social, Behavioral, and Economic Sciences | 47.075 | BCS-1841416 | 500 | 29,309 |
| Social, Behavioral, and Economic Sciences | 47.075 | BCS-1745154 | - | 6,582 |
| Social, Behavioral, and Economic Sciences | 47.075 | XXX-1918490 | - | 2,366 |
| Total Social, Behavioral, and Economic Sciences CFDA | | | <u>16,470</u> | <u>427,224</u> |
| Geosciences | 47.050 | GS-1807478 | - | 56,369 |
| Total Geosciences CFDA | | | <u>-</u> | <u>56,369</u> |
| Computer and Information Science and Engineering | 47.070 | OAC-1757923 | - | 69,948 |
| Computer and Information Science and Engineering | 47.070 | IIS-1838251 | - | 46,111 |
| Total Computer and Information Science and Engineering CFDA | | | <u>-</u> | <u>116,059</u> |
| Total Direct National Science Foundation | | | <u>162,718</u> | <u>1,409,628</u> |
| National Science Foundation | | | | |
| Pass-Through: | | | | |
| J. Craig Venter Institute, Inc | | SUB No. JCVI-18-019 | | |
| Biological Sciences | 47.074 | MCB-1840301 | - | 21,655 |
| Total Pass-Through National Science Foundation | | | <u>-</u> | <u>21,655</u> |
| Total National Science Foundation | | | <u>162,718</u> | <u>1,431,283</u> |
| Department of Defense | | | | |
| Department of the Army - Air Force Office of Scientific Research | | | | |
| Pass-Through: | | | | |
| U. of Colorado - Boulder | | SUB 1558170 | | |
| Air Force Defense Research Sciences | 12.800 | FA9550-19-1-0329 | - | 15,486 |
| Total Pass-Through University of Colorado-Boulder | | | <u>-</u> | <u>15,486</u> |
| Department of the Army - US Army Research Office | | | | |
| Direct Awards | | | | |
| Basic Scientific Research | 12.431 | W911NF-15-1-0127 | - | 5,971 |
| Total Direct Department of Defense/ARO | | | <u>-</u> | <u>5,971</u> |
| Pass-Through: | | | | |
| Carnegie Mellon University | | SUB 1130223-395695 | | |
| Basic Scientific Research | 12.431 | W911NF-17-1-0502 | - | 21,244 |
| Total Pass-Through Carnegie Mellon | | | <u>-</u> | <u>21,244</u> |
| Total Department of Defense | | | <u>-</u> | <u>42,701</u> |

See Notes to Schedule of Expenditures of Federal Awards.

**SANTA FE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

| Federal Grantor/Pass through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|---|---------------------------|--|---------------------------------------|-------------------------|
| National Aeronautics and Space Administration | | | | |
| Pass-Through | | SUB 775K983 | | |
| University of Wisconsin - Madison | 43.001 | 80NSSC17K0296 | \$ - | \$ 85,043 |
| Total Pass-Through U Wisconsin - Madison | | | - | 85,043 |
| Pass-Through: | | | | |
| Georgetown University | | Sub AWD7773186-GR205804 | | |
| Science | 43.001 | 80NSSC18K1140 | - | 117,424 |
| Total Pass-Through Georgetown University and National Aeronautics and Space Administration | | | - | 117,424 |
| Total National Aeronautics and Space Administration | | | - | 202,467 |
| U.S. Department of Agriculture | | | | |
| National Institute of Food and Agriculture | | | | |
| Direct Awards: | | | | |
| Agriculture and Food Research Initiative | 10.310 | 2018-67023-27677 | - | 244,400 |
| Total U.S. Department of Agriculture | | | - | 244,400 |
| Total Federal Expenditures and Total Research and Development Cluster of Programs | | | <u>\$ 162,718</u> | <u>\$ 1,920,851</u> |

See Notes to Schedule of Expenditures of Federal Awards.

**SANTA FE INSTITUTE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2019**

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, 2019. 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 INDIRECT COST RATE

Entity has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 FEDERAL CLUSTER

All of the programs in the Schedule are considered part of the Institute's research and development cluster.



**INDEPENDENT AUDITORS' REPORT 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***

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 consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2020.

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*.

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 results 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.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 5, 2020



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Santa Fe Institute
Santa Fe, New Mexico

Report on Compliance for Each 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 each of Santa Fe Institute's major federal programs for the year ended December 31, 2019. Santa Fe Institute's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 each major federal program. However, our audit does not provide a legal determination of Santa Fe Institute's compliance.

Opinion on Each 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 each of its major federal programs for the year ended December 31, 2019.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. 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.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 5, 2020

**SANTA FE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes x no

Identification of Major Federal Programs

CFDA Number(s)

10.310, 12.431, 12.800, 43.001,
47.049, 47.050, 47.070, 47.074
47.075

Name of Federal Program or Cluster

Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 x yes _____ no

**SANTA FE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,
an SEC-registered investment advisor. | CliftonLarsonAllen LLP

