

SANTA FE INSTITUTE
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2022 AND 2021



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**SANTA FE INSTITUTE
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Santa Fe Institute
Santa Fe, New Mexico

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santa Fe Institute and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements as a whole. The accompanying 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 GAAS. In our opinion, the schedule of expenditures of federal awards 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 September 8, 2023, 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
September 8, 2023

SANTA FE INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,148,757	\$ 13,929,289
Receivables:		
Other Receivables	537,780	307,551
Pledges Receivable	17,187,969	10,100,000
Grants	551,830	570,638
Prepaid Expenses	158,479	43,463
Endowment Assets Appropriated for Expenditure	658,853	616,368
Total Current Assets	<u>24,243,668</u>	<u>25,567,309</u>
NONCURRENT ASSETS		
Receivables:		
Pledges Receivable	17,877,698	27,237,689
Related Party Receivable	-	111,925
Property and Equipment, Net	14,097,340	13,331,724
Investments	30,360,299	28,853,037
Total Noncurrent Assets	<u>62,335,337</u>	<u>69,534,375</u>
 Total Assets	 <u><u>\$ 86,579,005</u></u>	 <u><u>\$ 95,101,684</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of Credit	\$ 1,932,152	\$ -
Accrued Payroll and Related Liabilities	902,201	869,363
Accounts Payable	598,584	338,518
Deferred Revenue	4,500	341,250
Other Liabilities	23,092	44,392
Total Liabilities	<u>3,460,529</u>	<u>1,593,523</u>
NET ASSETS		
Without Donor Restrictions:		
Undesignated	7,820,081	6,448,999
With Donor Restrictions:		
Purpose Restrictions	24,869,143	32,623,172
Passage of Time	35,065,667	35,792,620
Endowment Earnings Subject to Appropriation	-	1,545,070
Underwater Endowment	(1,734,715)	-
Perpetual in Nature	17,098,300	17,098,300
Total With Donor Restrictions	<u>75,298,395</u>	<u>87,059,162</u>
Total Net Assets	<u>83,118,476</u>	<u>93,508,161</u>
 Total Liabilities and Net Assets	 <u><u>\$ 86,579,005</u></u>	 <u><u>\$ 95,101,684</u></u>

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
ACtioN (Formerly Business Network)	\$ 1,217,984	\$ -	\$ 1,217,984
ACtioN Studio Workshops/Salon Series	200,000	-	200,000
Government Grants	2,100,864	-	2,100,864
Gifts and Nongovernment Grants	3,030,914	3,449,000	6,479,914
Tuition	271,591	-	271,591
Net Investment Loss	(841,361)	(4,648,925)	(5,490,286)
Net Assets Released from Restrictions - Satisfaction of Restrictions	10,560,842	(10,560,842)	-
Total Revenue, Support, and Gains	16,540,834	(11,760,767)	4,780,067
EXPENSES			
Program Service	9,518,010	-	9,518,010
Management and General	5,538,848	-	5,538,848
Fundraising and Development	112,894	-	112,894
Total Expenses	15,169,752	-	15,169,752
CHANGE IN NET ASSETS	1,371,082	(11,760,767)	(10,389,685)
Net Assets - Beginning of Year	6,448,999	87,059,162	93,508,161
NET ASSETS - END OF YEAR	<u>\$ 7,820,081</u>	<u>\$ 75,298,395</u>	<u>\$ 83,118,476</u>

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
ACtioN (Formerly Business Network)	\$ 966,553	\$ -	\$ 966,553
ACtioN Studio Workshops	131,250	-	131,250
Government Grants	1,889,149	-	1,889,149
Gifts and Nongovernment Grants	2,199,183	49,853,563	52,052,746
Tuition	48,923	-	48,923
Net Investment Income	1,639,706	1,582,014	3,221,720
Net Assets Released from Restrictions - Satisfaction of Restrictions	1,677,221	(1,677,221)	-
Total Revenue, Support, and Gains	8,551,985	49,758,356	58,310,341
EXPENSES			
Program Service	6,659,781	-	6,659,781
Management and General	4,967,360	-	4,967,360
Fundraising and Development	191,881	-	191,881
Total Expenses	11,819,022	-	11,819,022
CHANGE IN NET ASSETS	(3,267,037)	49,758,356	46,491,319
Net Assets - Beginning of Year	9,716,036	37,300,806	47,016,842
NET ASSETS - END OF YEAR	<u>\$ 6,448,999</u>	<u>\$ 87,059,162</u>	<u>\$ 93,508,161</u>

See accompanying Notes to Financial Statements.

SANTA FE INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program Service	Management and General	Fundraising and Development	Total
Salaries	\$ 4,818,141	\$ 2,486,588	\$ 92,248	\$ 7,396,977
Taxes and Benefits	1,006,037	544,796	19,962	1,570,795
Contract Labor	807,293	832,994	-	1,640,287
Advertising	-	97,028	-	97,028
Office Expense	89,931	162,911	-	252,842
Technology	64,597	234,687	-	299,284
Occupancy	128,875	43,703	-	172,578
Maintenance and Repair	207,877	102,997	-	310,874
Travel	642,082	23,276	-	665,358
Lodging	585,162	7,720	-	592,882
Interest Expense	-	34,335	-	34,335
Stipends	124,335	-	-	124,335
Subawards	152,665	-	-	152,665
Depreciation	331,196	112,313	-	443,509
Insurance	-	330,867	-	330,867
Food and Beverage	373,156	238,705	-	611,861
Supplies	55,685	153,074	-	208,759
Dues and Subscriptions	34,423	4,122	-	38,545
Miscellaneous	96,555	123,018	-	219,573
Taxes and Licenses	-	5,714	684	6,398
Total Expenses by Function	<u>\$ 9,518,010</u>	<u>\$ 5,538,848</u>	<u>\$ 112,894</u>	<u>\$ 15,169,752</u>

See accompanying Notes to Financial Statements.

SANTA FE INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Service	Management and General	Fundraising and Development	Total
Salaries	\$ 4,106,286	\$ 2,573,910	\$ 161,631	\$ 6,841,827
Taxes and Benefits	763,120	562,788	28,883	1,354,791
Contract Labor	459,338	577,296	-	1,036,634
Advertising	-	50,632	-	50,632
Office Expense	146,778	116,328	-	263,106
Technology	86,241	211,029	-	297,270
Occupancy	91,350	30,978	-	122,328
Maintenance and Repair	27,344	136,265	-	163,609
Travel	50,511	809	-	51,320
Lodging	47,304	-	-	47,304
Interest Expense	-	63,331	-	63,331
Stipends	145,020	-	-	145,020
Subawards	358,114	-	-	358,114
Depreciation	307,361	104,230	-	411,591
Insurance	-	234,757	-	234,757
Food and Beverage	10,017	77,224	-	87,241
Supplies	18,238	104,563	-	122,801
Dues and Subscriptions	32,024	48,093	-	80,117
Miscellaneous	10,735	70,574	-	81,309
Taxes and Licenses	-	4,553	1,367	5,920
Total Expenses by Function	<u>\$ 6,659,781</u>	<u>\$ 4,967,360</u>	<u>\$ 191,881</u>	<u>\$ 11,819,022</u>

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (10,389,685)	\$ 46,491,319
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	443,509	411,591
Amortization of Discount on Promises to Give	340,009	(28,932)
Loss on Disposal of Property and Equipment	-	7,729
Net Investment Loss (Income)	5,482,662	(3,219,080)
Debt Forgiveness - Principal	100,000	100,000
Debt Forgiveness - Interest	11,925	8,033
Contributions Restricted to Endowment	-	(5,000,000)
Changes in Assets and Liabilities:		
Receivables	1,720,594	(34,261,524)
Other Current Assets	(115,016)	(40,774)
Current Liabilities	<u>(65,146)</u>	<u>406,056</u>
Net Cash Provided (Used) by Operating Activities	(2,471,148)	4,874,418
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments Purchased	(38,039,095)	(210,578)
Proceeds of Investments Sold	31,006,684	5,079,678
Purchase of Property and Equipment	<u>(1,209,125)</u>	<u>(768,930)</u>
Net Cash Provided (Used) by Investing Activities	(8,241,536)	4,100,170
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions Restricted to Endowment	-	5,000,000
Proceeds from Line of Credit	<u>1,932,152</u>	<u>(3,000,000)</u>
Net Cash Provided by Financing Activities	<u>1,932,152</u>	<u>2,000,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,780,532)	10,974,588
Cash and Cash Equivalents - Beginning of Year	<u>13,929,289</u>	<u>2,954,701</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 5,148,757</u></u>	<u><u>\$ 13,929,289</u></u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES		
Debt Forgiveness - Principal	<u><u>\$ 100,000</u></u>	<u><u>\$ 100,000</u></u>
Debt Forgiveness - Interest	<u><u>\$ 11,925</u></u>	<u><u>\$ 8,033</u></u>

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Santa Fe Institute (the Institute), a nonprofit corporation of New Mexico, 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

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.

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.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition (Continued)

ACtioN Membership – The Institute offers a business network membership program (ACtioN). Membership payments entitle members to member-only content on SFI's website, virtual meetings, and attendance at the annual ACtioN symposium. Membership dues, which are nonrefundable, are comprised of an exchange component based on the cost of benefits provided, and a contribution component for the difference between the total payment and the exchange component. ACtioN exchange revenues are prorated over the membership term (over time), which is a 12-month period, and the contribution component is recognized immediately.

ACtioN Studio Workshops – Studio payments entitle organizations, governments, and ACtioN members to complexity science workshops with SFI scholars. Studio revenue is recognized based on occurrence of the workshop (point in time).

Tuition – Tuition payments entitle students, postdoctoral fellows, and professionals to educational programming, including: summer school, workshops, and online courses. Tuition revenue is recognized at the end of the instruction period for summer school and online courses, and in the period workshops occur (point in time).

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, 2022 and 2021.

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, 2022 and 2021.

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.

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 statements of activities.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022 beginning balance of net assets and had no unrecognized tax benefits at December 31, 2022.

Functional Allocation of Expenses

The costs of providing the Institute'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.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Institute adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption.

SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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. All assets were measured using Level 1 inputs at December 31, 2022 and 2021.

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.

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 cost as of December 31:

	2022	2021
Mutual Funds	\$ 15,805,460	\$ 14,431,094
Corporate Stock	14,497,132	14,644,929
Equities	<u>598,960</u>	<u>275,782</u>
Total Assets in the Fair Value Hierarchy - Level 1	30,901,552	29,351,805
Investment Carried at Cost	<u>117,600</u>	<u>117,600</u>
Investments at Fair Value	<u><u>\$ 31,019,152</u></u>	<u><u>\$ 29,469,405</u></u>

SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2022	2021
Assets Not Being Depreciated:		
Land	\$ 4,774,192	\$ 4,774,192
Artwork	551,676	551,676
Construction in Progress	1,234,907	192,988
Total Assets Not Being Depreciated	6,560,775	5,518,856
Assets Being Depreciated:		
Building and Improvements	13,236,765	13,103,384
Ground Improvements	189,884	189,884
Equipment	366,109	357,149
Computer Equipment and Software	192,672	175,048
Furniture and Fixtures	320,370	366,678
Total Assets Being Depreciated	14,305,800	14,192,143
Less: Accumulated Depreciation	(6,769,235)	(6,379,275)
Total Capital Assets Being Depreciated, Net	7,536,565	7,812,868
Total Capital Assets, Net	<u>\$ 14,097,340</u>	<u>\$ 13,331,724</u>

NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Subject to Expenditure for Specified Purpose:		
Various Research	\$ 24,869,143	\$ 27,853,172
Various Use and Resale	-	4,770,000
Total	24,869,143	32,623,172
Subject to Passage of Time:		
Pledges Receivable	35,065,667	35,792,620
Subject to Appropriation:		
Endowment Earnings	-	1,545,070
Not Subject to Appropriation:		
Endowment Funds	17,098,300	17,098,300
Underwater Funds	(1,734,715)	-
Total	15,363,585	17,098,300
Total Net Assets with Donor Restrictions	<u>\$ 75,298,395</u>	<u>\$ 87,059,162</u>

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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:

	<u>2022</u>	<u>2021</u>
Satisfaction of Purpose Restrictions:		
Various Research	\$ 2,318,836	\$ 1,035,853
Various Use and Resale	4,770,000	-
Appropriation of Endowment Earnings	658,853	616,368
Pledges Receivable	2,813,153	25,000
Total	<u>\$ 10,560,842</u>	<u>\$ 1,677,221</u>

NOTE 5 PLEDGES RECEIVABLE

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

Expected Cash Collection	\$ 38,087,969
Less: Discount to Present Value	<u>(3,022,302)</u>
Present Value of Pledges Receivables	<u>\$ 35,065,667</u>

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 17,187,969
2024	10,300,000
2025	10,300,000
2026	100,000
Thereafter	200,000
Total Pledge Receivable	<u>\$ 38,087,969</u>

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 \$230,172 and \$219,719 in 2022 and 2021, respectively.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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, 2022 and 2021, exceeded the insurance limits of the Federal Deposit Insurance Corporation. At December 31, 2022 and 2021, the Institute's uninsured balance was \$4,728,881 and \$13,508,566, 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, 2022 and 2021.

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

	2022	2021
Fair Market Value of Endowment Net Assets -		
Beginning of Year	\$ 18,643,370	\$ 12,677,724
Net Investment Income (Loss)	(2,620,932)	1,582,014
Contributions, Reversions, and Changes		
in Donor Restrictions	-	5,000,000
Appropriation of Endowment Assets for Expenditure	(658,853)	(616,368)
Fair Market Value of Endowment Net Assets - End of Year	<u>\$ 15,363,585</u>	<u>\$ 18,643,370</u>
Original Gifts	<u>\$ 17,098,300</u>	<u>\$ 17,098,300</u>
(Underwater)/Endowment Earnings Subject to Appropriation:	<u>\$ (1,734,715)</u>	<u>\$ 1,545,070</u>

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 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, 2022, 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.

NOTE 9 RELATED PARTY TRANSACTIONS

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. The Institute amended the terms of this agreement on June 24, 2019 to extend the term beyond August 1, 2020. Furthermore, a final amendment to the Promissory Note was executed December 19, 2020, wherein the Institute modified the original maturity of these loans as follows: the first, in the amount of \$100,000, was fully forgiven July 31, 2020. The second, in the amount of \$100,000, will be forgiven in the event the Institute's perpetual endowment investment pool increases by at least twenty million dollars. Per the final amendment, this term has been met based on the determination of the board of trustees, and will be forgiven effective August 1, 2021. The third, in the amount of \$100,000, is to be forgiven as of August 1, 2022. As of December 31, 2022 all three loans have been forgiven.

The amount of principal and interest forgiven was \$111,923 and \$108,033 for December 31, 2022 and 2021, respectively.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 9 RELATED PARTY TRANSACTIONS (CONTINUED)

Furthermore, the Institute receives contributions and pledges from trustees of the board. During the year ended December 31, 2021, the Institute reported a \$50 million unconditional promise to give from an individual trustee, payable over five years, beginning in 2021. The outstanding balance, included in pledges receivable, as of December 31, 2022 and 2021, was \$36,890,000 and \$40,000,000, respectively.

During the year ended December 31, 2022, the Institute reported \$1 million unconditional promise to give from an individual trustee, payable over four years, beginning in 2022. The outstanding balance, including in pledges receivable, as of December 31, 2022 and 2021 was \$600,000 and \$-0-, respectively.

As of December 31, 2022 and 2021, pledges receivable were solely made up of pledges receivable from three trustees of the board.

NOTE 10 LIQUIDITY AND AVAILABILITY OF RESOURCES

The Institute 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, the Institute considers all expenditures related to ongoing activities including governance, facilities, regulatory programs, member services, and publications. The Institute 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:

	2022	2021
Current Financial Assets	\$ 23,426,336	\$ 24,907,478
Endowment Assets Appropriated for General Expenditures	<u>658,853</u>	<u>616,368</u>
Total Financial Assets Available to Meet General Expenditures Over the Next 12 Months	<u>\$ 24,085,189</u>	<u>\$ 25,523,846</u>

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 10 LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

Furthermore, the Institute 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:

	2022	2021
Net Assets with Donor Restriction, Less:	\$ (75,298,395)	\$ (87,059,162)
Receivables (Excluding Related Party)	36,155,277	38,215,878
Cash and Cash Equivalents	5,148,757	13,929,289
Investments	30,360,299	28,853,037
Endowment Assets Appropriated for Expenditure	658,853	616,368
Contributed Property Restricted for		
Various Use and Resale	-	4,770,000
Amount in Excess (Deficit) of Donor Restrictions	<u>\$ (2,975,209)</u>	<u>\$ (674,590)</u>

NOTE 11 LINE OF CREDIT

During 2020, the Institute established a liquidity access line with a financial institution for up to \$2,000,000 at an annual rate equal to the financial institutions prime rate of 2.65% plus 30-day London Interbank Offered Rate (LIBOR). There was an outstanding balance on this line-of-credit as of December 31, 2022, of \$1,932,152.

NOTE 12 SUBSEQUENT EVENTS

Management evaluated subsequent events through September 8, 2023, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2022, but prior to September 8, 2023, that provided additional evidence about conditions that existed at December 31, 2022 have been recognized in the financial statements for the year ended December 31, 2022. Events or transactions that provided evidence about conditions that did not exist at December 31, 2022 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2022.

SANTA FE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal Asset Listing 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	IIS-1838251	\$ -	\$ 211,735
Mathematical and Physical Sciences	47.049	DMR-1910736	-	144,851
Mathematical and Physical Sciences	47.049	CCF-2221345	-	61,675
Total Mathematical and Physical Sciences ALN			-	418,261
Biological Sciences	47.074	DEB-1745355	-	235,466
Total Biological Sciences ALN			-	235,466
Social, Behavioral, and Economic Sciences	47.075	SMA-2006355	-	30,477
Social, Behavioral, and Economic Sciences	47.075	SES-1757211	-	12,014
Social, Behavioral, and Economic Sciences	47.075	BCS-1918490	-	103,413
Social, Behavioral, and Economic Sciences	47.075	SES-1949432	-	65,609
Social, Behavioral, and Economic Sciences	47.075	SMA-2034026	-	17,980
Social, Behavioral, and Economic Sciences	47.075	SES-2019982	46,868	73,885
Social, Behavioral, and Economic Sciences	47.075	SES-2117564	51,276	97,282
Total Social, Behavioral, and Economic Sciences ALN			98,144	400,660
Geosciences	47.050	GS-1807478	-	-
Total Geosciences ALN			-	-
Computer and Information Science and Engineering	47.070	OAC-1757923	-	20,471
Computer and Information Science and Engineering	47.070	IIS-2020103	36,182	239,480
Computer and Information Science and Engineering	47.070	IIS-2139983	-	67,486
Computer and Information Science and Engineering	47.070	CCF-2145170	-	42,674
Total Computer and Information Science and Engineering ALN			36,182	370,111
Office of International Science and Engineering	47.079	OISE-2106013	-	114,715
Total Geosciences ALN			-	114,715
Total Direct National Science Foundation			134,326	1,539,213
National Science Foundation				
Pass-Through:				
J. Craig Venter Institute, Inc		SUB No. JCVI-18-019		
Biological Sciences	47.074	MCB-1840301	-	128,814
North Western University		SUB 60060082 SFI		
Biological Sciences	47.074	EF-2133863	-	112,599
Total Pass-Through National Science Foundation			-	241,413
Total National Science Foundation			134,326	1,780,626
Department of Defense				
Department of the Army - Air Force Office of Scientific Research				
Pass-Through:				
U. of Colorado - Boulder		SUB 1558170		
Basic, Applied, and Advanced Research in Science & Engineering	12.630	FA9550-19-1-0329	-	37,747
Total Department of Army/AFOSR			-	37,747
Department of the Army - US Army Research Office				
Pass-Through:				
U. of California/Merced		SUB A20-0102-S001		
Basic Scientific Research	12.431	W911NF-2010220	-	76,716
Total Department of the Army/ARO			-	76,716
Total Department of Defense			-	114,463

See accompanying Notes to Schedule of Expenditures of Federal Awards.

SANTA FE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal Asset Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
National Endowment for the Humanities				
Pass-Through:				
Princeton		SUB0000605		
NEH	45.169	HT-272418-20	\$ -	\$ 28,552
Total Pass-Through Princeton			<u>-</u>	<u>28,552</u>
Total National Endowment for the Humanities			-	28,552
Center For Disease Control				
Pass-Through:				
UT Austin		SUB A20-0102-S001		
Basic Scientific Research	12.431	W911NF-2010220	-	66,000
Total Pass-Through UT Austin			<u>-</u>	<u>66,000</u>
Total Center for Disease Control			-	66,000
National Aeronautics and Space Administration				
Pass-Through:				
Georgetown University		SUB AWD7773186-GR205804		
Aerospace Education Services Program	43.001	80NSSC18K1140	-	111,223
Total Pass-Through Georgetown University			<u>-</u>	<u>111,223</u>
Total National Aeronautics and Space Administration			-	111,223
Total Federal Expenditures and Total Research and Development Cluster of Programs			<u>\$ 134,326</u>	<u>\$ 2,100,864</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

SANTA FE INSTITUTE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2022

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, 2022. 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. SFI has a negotiated indirect cost rate with the National Science Foundation (their lead federal agency) of 57.00%.

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 (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related 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 September 8, 2023.

Report on 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be a material weakness.

Report on 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2022-002.

Santa Fe Institute's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Santa Fe Institute's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Santa Fe Institute's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
September 8, 2023



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
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

Opinion on Each Major Federal Program

We have audited Santa Fe Institute's compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

In our opinion, Santa Fe Institute complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Santa Fe Institute and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Santa Fe Institute's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Santa Fe Institute's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Santa Fe Institute's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Santa Fe Institute's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Santa Fe Institute's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Santa Fe Institute's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Santa Fe Institute's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Santa Fe Institute's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Santa Fe Institute's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002, to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Santa Fe Institute's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Santa Fe Institute's response was not subjected to the other 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.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
September 8, 2023

**SANTA FE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2022**

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? x yes 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)? x yes 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)? x yes no

Identification of Major Federal Programs

Assistance Listing Number(s)

12.431, 12.630, 43.001, 45.169
47.049, 47.050, 47.070, 47.074
47.075, 47.079

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, 2022**

Section II – Financial Statement Findings

2022–001 – Material Weakness – Financial Close and Reporting

Type of Finding: Material Weakness in Internal Control over Financial Close and Reporting

Condition: During our testing, we noted the following conditions:

1. The rate used for calculating the estimated discount on the net present value of long-term pledges had not been updated for significant changes in the economic environment (rising interest rates) which resulted in a difference of approximately \$1.25 million.
2. Net assets released from restrictions in the amount of \$300,000 that did not have adequate supporting documentation that the donors intent had been met.
3. The year-end accrual for federal grants receivable in the amount of \$169,760 had not been posted.
4. Year-end adjustments to reconcile Applied Complexity Network (ACtioN) accounts receivable in the amount of \$40,000 and deferred revenues of \$118,000 that should have been recognized as of year-end. \$80,000 of payments related to prior year recorded as revenue in year under audit.

Criteria or specific requirement:

1. Significant changes in underlying assumptions (discount rate) of significant estimates (net present value discount of long-term pledges) should be reviewed at least annually.
2. Net assets subject to donor-imposed restrictions can only be released when a restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose for which the resource was restricted has been fulfilled.
3. Generally Accepted Accounting Principles (GAAP) requires matching revenues and expenses in the same period that they occur and related to.
4. ACtioN revenues should be pro-rated over the membership term, which is currently a 12-month period.

Context:

1. Net present value discount is a significant accounting estimate and the discount rate used at origination (3.25%) was not updated for current year conditions (5.20%).
2. These transfers and adjustments have been reversed as of year-end under audit for management to investigate further.
3. Federal drawdowns were billed in a timely manner subsequent to year-end.
4. The net misstatement of these errors was less than \$5,000.

Cause: Due to turnover in finance department:

1. Changes in and notes to calculating prior year discount were not communicated to outsourced accountant for evaluation during year-end financial close and reporting for the year under audit.
2. The support for these releases was not communicated to outsourced accountant for evaluation during year-end financial close and reporting.
3. Federal receivables billed subsequent to year-end were not accrued as of year-end under audit.
4. ACtioN receivables and deferred revenues were not adjusted during year-end financial close and reporting.

**SANTA FE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022**

Section II – Financial Statement Findings (Continued)

2022–001 – Material Weakness – Financial Close and Reporting (Continued)

Effect:

1. Overstated contributions (amortization of discount) and understated net present value discount on long-term pledges (overstating net pledges receivable).
2. Improper tracking and/or use of donor funds.
3. Understated receivables/revenues and revenues not being matched with expenses (federal).
4. Improper revenue recognition (cash basis).

Repeat Finding: No

Recommendation: We recommend the following:

1. Evaluate significant changes in underlying assumptions (discount rate) in net present value discount calculation, at least annually, during financial close and reporting.
2. Specifically, identify expenses in prior periods, or assume funds have not been spent and develop a plan to satisfy donor restrictions. In general, maintain detailed support for released restrictions to documented the donors intended use of funds has been met.
3. Reconcile federal revenues to federal expenses, at least annually during financial close and reporting, to ensure all federal revenues have been matched to expenses of federal awards (cost-reimbursement).
4. Reconcile ACTioN receivables/deferred revenues, at least annually during financial close and reporting.

Views of responsible officials and planed corrective actions: SFI will work with our outsourced accountant to ensure the discount rate is current when preparing the quarterly financials and at year end when the net asset rollforward is prepared. Donor agreements will be reviewed periodically to ensure that all restrictions and spending are within the agreement. Federal revenues and expenditures will be reconciled each quarter during preparation of the quarterly financial statements. ACTioN receivables / deferred revenues will also be reviewed quarterly while preparing the quarterly financial statements.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Actions planned in response to finding: SFI CFO and Finance Team, in conjunction with the services of an outsourced accountant, will evaluate and adjust the discount rate in net present value discount calculation prior to the net asset roll-forward being prepared. Donor agreements will be reviewed to insure that all requirements and restrictions are being followed and spending documented in proper period. Spending plans will be developed when necessary. Federal revenues to expenses will be reconciled quarterly as a function of the quarterly financial preparation. Any discrepancies will be addressed and resolved. Reconciliations for ACTioN will be prepared quarterly in conjunction with the quarterly financial statement preparation. Cash received in December and January will be reviewed for recording in the appropriate calendar year.

Responsible party: Suzette A. Fronk, Chief Financial Officer

Planned completion date for corrective action plan: September 1, 2023

Plan to monitor completion of corrective action plan: The corrective action plan will be reviewed and documented quarterly going forward.

**SANTA FE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022**

Section III – Findings and Questioned Costs – Major Federal Programs

2022–002 – Control Deficiency – Suspension and Debarment (Repeated and Modified)

Federal agency: National Science Foundation

Federal program title: Research and Development (R&D) Cluster

Assistance Listing Number (ALN): 47.075

Award Period: BCS-1918490 (8/15/2019 – 7/31/2023, SES-1949432 (3/1/2020 – 2/28/2023), SES-2019982 (8/15/2020 – 7/31/2023).

Type of Finding: Significant Deficiency in Internal Control over Compliance; Compliance

Condition: During our testwork over Suspension and Debarment, we noted 1 of 6 covered transactions tested for which SFI did not confirm the vendor was not suspended or debarred prior to entering into the transaction.

Criteria or specific requirement: According to §200.303 Internal controls of 2 CFR Part 200, the non-Federal must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. 2 CFR Part 180.300 outlines the requirements to verify that covered individuals are not excluded or disqualified.

Questioned costs: None

Context: The prior year corrective action plan had a planned completion date of December 31, 2022, and this covered transaction originated in 2021. Management performed a check at the beginning of 2023, and noted the vendor was not suspended or debarred, but could not substantiate this check retroactively.

Cause: Transitions in personnel/management oversight.

Effect: Without appropriate controls in place the organization may entered into an agreement with a covered person or entity that is not eligible.

Repeat Finding: Yes

Recommendation: We recommend management follow internal processes to ensure that checks are performed to conform with 180.300 of the CFR prior to entering into covered transactions.

Views of responsible officials: Management agrees with the finding and has strengthened internal controls to meet the requirement. Management has discussed the requirements with all necessary parties and has instituted the new controls for setting up sub-contracts.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

**SANTA FE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2022-002 – Control Deficiency – Suspension and Debarment (Repeated and Modified)
(Continued)

Actions planned in response to finding: Management has implemented additional controls to be performed by the Sponsored Research department and VP of Administration office to better monitor and track sub-contractor debarment status prior to their being brought onboard for work with SFI. Additionally, a list of all vendors that needed Suspension and Debarment from the previous year will be reviewed in January of the following year as SFI utilizes vendors over multiple years due to limited availability of vendors to provide necessary services.

Responsible party: Suzette A. Fronk, Chief Financial Officer

Planned completion date for corrective action plan: September 1, 2023

Plan to monitor completion of corrective action plan: In conjunction with the VP of Administration, Sponsored Research Office, and the Chief Financial Officer, SFI's Finance Committee will monitor the completion of the corrective action plan.



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