

**COMMUNITY FOUNDATION OF
GREATER HUNTSVILLE
AUDITED FINANCIAL STATEMENTS**

DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Foundation of Greater Huntsville
Huntsville, Alabama

We have audited the accompanying financial statements of the Community Foundation of Greater Huntsville (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 the Community Foundation of Greater Huntsville as of December 31, 2021 and 2020, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Community Foundation of Greater Huntsville 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 the Community Foundation of Greater Huntsville's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

Mercer & Associates, PC

Huntsville, Alabama
May 25, 2022

**COMMUNITY FOUNDATION OF GREATER HUNTSVILLE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

	2021	2020
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 7,760,947	\$ 5,227,842
INVESTMENTS		
Short-Term Fixed Income Pool	7,579,873	4,434,848
Intermediate Fixed Income Pool	3,365,828	3,118,795
Equity Pool - Domestic	9,107,529	7,204,861
Equity Pool - International	3,329,237	2,637,975
Other externally managed accounts	9,028,964	6,965,591
Deposits in transit	96,989	364,314
Total Investments	32,508,420	24,726,384
OTHER ASSETS		
Prepaid expenses	19,599	11,484
Cash and money market securities restricted for endowments	486,415	166,490
Note receivable	1,222,576	1,846,818
Bond investment - Cadence	6,000,000	6,000,000
Stock warrants	11,600	11,600
Real estate - land	0	107,650
Total Other Assets	7,740,190	8,144,042
FIXED ASSETS		
Furniture and fixtures	6,463	6,463
Computers and equipment	9,054	9,054
Less: accumulated depreciation	(10,196)	(7,622)
Total Fixed Assets	5,321	7,895
TOTAL ASSETS	\$ 48,014,878	\$ 38,106,163
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accrued liabilities	\$ 20,861	\$ 27,210
Grants payable	76,950	180,632
Note payable - Cadence	6,000,000	6,000,000
Unearned revenue	59,500	49,300
Funds held for agencies	4,680,475	2,713,854
Total Liabilities	10,837,786	8,970,996
NET ASSETS		
Without donor restrictions	28,973,019	23,866,600
With donor restrictions	8,204,073	5,268,567
Total Net Assets	37,177,092	29,135,167
TOTAL LIABILITIES AND NET ASSETS	\$ 48,014,878	\$ 38,106,163

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

**COMMUNITY FOUNDATION OF GREATER HUNTSVILLE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contribution income	\$ 205,675	\$ 0	\$ 205,675
Interest/dividends	631	0	631
Special events, net of expenses	65,920	0	65,920
Administrative fee income	348,848	0	348,848
Miscellaneous income	995	0	995
Total Support and Revenue	<u>622,069</u>	<u>0</u>	<u>622,069</u>
FUNCTIONAL EXPENSES			
Program services	296,209	0	296,209
Support services	72,471	0	72,471
Fundraising	148,149	0	148,149
Total Functional Expenses	<u>516,829</u>	<u>0</u>	<u>516,829</u>
OTHER INCOME (EXPENSE)			
Donor Fund contributions	8,838,904	2,514,799	11,353,703
In-kind contributions	572	0	572
Contributions to Endowed Funds	0	1,081,617	1,081,617
Interest/dividends	457,672	278,258	735,930
Realized gains and losses, net expenses of \$53,394	717,178	179,673	896,851
Unrealized gain (loss) on investments	1,283,630	212,210	1,495,840
Donor Fund distributions	(7,138,665)	0	(7,138,665)
Interest expense	(120,000)	0	(120,000)
Administrative fees	(369,163)	0	(369,163)
Total Other Income (Expense)	<u>3,670,128</u>	<u>4,266,557</u>	<u>7,936,685</u>
Reclassification between net asset classes	41,848	(41,848)	0
Net assets released from restriction	1,289,203	(1,289,203)	0
CHANGE IN NET ASSETS	<u>5,106,419</u>	<u>2,935,506</u>	<u>8,041,925</u>
NET ASSETS, BEGINNING	<u>23,866,600</u>	<u>5,268,567</u>	<u>29,135,167</u>
NET ASSETS, ENDING	<u>\$ 28,973,019</u>	<u>\$ 8,204,073</u>	<u>\$ 37,177,092</u>

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

**COMMUNITY FOUNDATION OF GREATER HUNTSVILLE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contribution income	\$ 271,008	\$ 0	\$ 271,008
Interest/dividends	2,370	0	2,370
Special events, net of expenses	91,462	0	91,462
Administrative fee income	214,391	0	214,391
Total Support and Revenue	<u>579,231</u>	<u>0</u>	<u>579,231</u>
FUNCTIONAL EXPENSES			
Program services	290,290	0	290,290
Support services	69,756	0	69,756
Fundraising	145,189	0	145,189
Total Functional Expenses	<u>505,235</u>	<u>0</u>	<u>505,235</u>
OTHER INCOME (EXPENSE)			
Donor Fund contributions	11,447,544	2,564,308	14,011,852
Grant income	80,600	0	80,600
In-kind contributions	12,501	0	12,501
Contributions to Endowed Funds	0	328,060	328,060
Interest/dividends	353,885	263,535	617,420
Realized gains and losses, net expenses of \$24,736	604,577	226,381	830,958
Unrealized gain (loss) on investments	577,563	150,811	728,374
Donor Fund distributions	(5,750,540)	0	(5,750,540)
Interest expense	(110,000)	0	(110,000)
Administrative fees	(237,411)	0	(237,411)
Total Other Income (Expense)	<u>6,978,719</u>	<u>3,533,095</u>	<u>10,511,814</u>
Reclassification between net asset classes	(251,966)	251,966	0
Reclassification to agency fund	(111,238)	0	(111,238)
Net assets released from restriction	2,403,267	(2,403,267)	0
CHANGE IN NET ASSETS	<u>9,092,778</u>	<u>1,381,794</u>	<u>10,474,572</u>
NET ASSETS, BEGINNING	<u>14,773,822</u>	<u>3,886,773</u>	<u>18,660,595</u>
NET ASSETS, ENDING	<u>\$ 23,866,600</u>	<u>\$ 5,268,567</u>	<u>\$ 29,135,167</u>

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

**COMMUNITY FOUNDATION OF GREATER HUNTSVILLE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Program Services	Management and General	Fundraising	Total
Consultants	\$ 1,094	\$ 182	\$ 547	\$ 1,823
Depreciation expense	1,544	257	772	2,574
Dues and subscriptions	3,408	568	1,704	5,680
Employee benefits	0	0	0	0
Equipment expense	17,434	2,906	8,720	29,060
Liabilty insurance expense	0	15,455	0	15,455
Marketing expense	11,844	1,974	5,924	19,742
Meeting expense	3,923	654	1,962	6,539
Operations expense	6,380	1,063	3,191	10,634
Other expenses	25,587	4,265	12,797	42,649
Payroll taxes	13,880	2,314	6,942	23,135
Professional fees	0	7,643	0	7,643
Rent/occupancy	21,364	3,561	10,685	35,610
Retirement contribution matching expense	5,291	882	2,646	8,819
Salaries	180,472	30,082	90,263	300,816
Travel, training, and conferences	2,977	496	1,489	4,962
Website development and maintenance	1,013	169	507	1,688
TOTAL FUNCTIONAL EXPENSES	<u>296,209</u>	<u>72,471</u>	<u>148,149</u>	<u>516,829</u>
Donor Fund Distributions	7,138,665	0	0	7,138,665
Book to Tax Difference in Agency Fund Distribution Reporting	(1,966,621)	0	0	(1,966,621)
Administrative fees	322,259	46,904	0	369,163
Interest expense	120,000	0	0	120,000
FUNCTIONAL EXPENSES AS REPORTED ON THE 990	<u>\$ 5,910,512</u>	<u>\$ 119,375</u>	<u>\$ 148,149</u>	<u>\$ 6,178,036</u>

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

**COMMUNITY FOUNDATION OF GREATER HUNTSVILLE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Consultants	\$ 3,275	\$ 546	\$ 1,638	\$ 5,459
Depreciation expense	1,468	245	734	2,447
Dues and subscriptions	3,963	661	1,982	6,605
Employee benefits	0	0	0	0
Equipment expense	11,244	1,874	5,624	18,742
Liability insurance expense	0	11,941	0	11,941
Marketing expense	10,600	1,767	5,301	17,668
Meeting expense	2,368	395	1,184	3,947
Operations expense	6,997	1,166	3,499	11,662
Other expenses	29,141	4,857	14,575	48,574
Payroll taxes	13,798	2,300	6,901	22,999
Professional fees	0	9,428	0	9,428
Rent/occupancy	21,075	3,513	10,541	35,129
Retirement contribution matching expense	5,216	869	2,609	8,694
Salaries	177,401	29,570	88,727	295,698
Travel, training, and conferences	2,328	388	1,165	3,881
Website development and maintenance	1,416	236	708	2,360
TOTAL FUNCTIONAL EXPENSES	<u>290,290</u>	<u>69,756</u>	<u>145,189</u>	<u>505,234</u>
Donor Fund Distributions	5,750,540	0	0	5,750,540
Book to Tax Difference in Agency Fund Distribution Reporting	(250,594)	0	0	(250,594)
Administrative fees	194,902	42,509	0	237,411
Interest expense	110,000	0	0	110,000
FUNCTIONAL EXPENSES AS REPORTED ON THE 990	<u>\$ 6,095,138</u>	<u>\$ 112,265</u>	<u>\$ 145,189</u>	<u>\$ 6,352,591</u>

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

**COMMUNITY FOUNDATION OF GREATER HUNTSVILLE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Reconciliation of Increase in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Increase (Decrease) in net assets	\$ 8,041,925	\$ 10,474,572
Adjustment to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	2,574	2,447
Donation of real estate - land	0	(107,650)
Loss on sale of land	24,595	0
Unrealized (gain)/loss on investments	(1,495,840)	(728,374)
Realized (gain)/loss on investments	(896,851)	(830,958)
Investment income	(736,561)	(619,790)
Fees	369,163	237,411
Decrease (increase) in:		
Prepaid expenses	(8,115)	1,282
Cash restricted for endowments	(319,925)	(24,402)
Notes receivable	624,242	95,301
Increase (decrease) in:		
Payables and payroll liabilities	(6,349)	1,118
Grants payable	(103,682)	122,632
Unearned revenue	10,200	27,300
Nonprofit Agency Funds liability	1,966,621	250,593
Net cash provided (used) by operating activities	7,471,997	8,901,482
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	0	(3,815)
Proceeds from sale of investments	7,326,339	6,568,512
Proceeds from sale of land	83,055	0
Purchase of investments	(12,348,286)	(13,766,635)
Net cash provided (used) by investing activities	(4,938,892)	(7,201,938)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from promissory note	0	0
Net cash provided (used) by financing activities	0	0
Net increase (decrease) in cash and cash equivalents	2,533,105	1,699,544
Cash and cash equivalents at beginning of year	5,227,842	3,528,298
Cash and cash equivalents at end of year	\$ 7,760,947	\$ 5,227,842
SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ 120,000	\$ 110,000

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

COMMUNITY FOUNDATION OF GREATER HUNTSVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

The Community Foundation of Greater Huntsville (the “Foundation”) was incorporated as an Alabama nonprofit corporation in 2008 to improve the quality of life within the Greater Huntsville area. The Foundation’s primary objectives are to increase charitable donations in the Greater Huntsville area by educating donors about the tax benefits of giving, providing tax advantaged avenues for giving, and supporting the nonprofit agencies within our community.

The accounting policies of the Foundation conform to accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. The more significant accounting policies of the Foundation are described below:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned and expenses are recognized when incurred. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Basis of Presentation

The Statement of Financial Position does not classify assets and liabilities as current or non-current because the operating cycle of a community foundation is presumed to be *in perpetuity*.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Under the provisions of the “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”), net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified as follows:

Net Assets Without Donor Restrictions – net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management to fulfill the mission and vision of the Foundation. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation and the cash held for operations of the Foundation.

Net Assets With Donor Restrictions – net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. Some donor-imposed restrictions are temporary in nature and may be met either by actions of the Foundation or by the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

See Note 6 for discussion of the composition of each class of net assets.

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Community Foundation considers all highly liquid bank accounts and certificates available for current use with an initial maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. Cash and money market funds held in endowed accounts are not included because they are not available for current use.

Income Tax Status

The Foundation is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the Foundation has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509 (a) of the Internal Revenue Code. There was no unrelated business income for the years ended December 31, 2021 and 2020. Tax years after December 31, 2017 remain subject to examination by taxing authorities.

Investments

Investments in all mutual funds and equity securities with readily determinable market values are recorded at fair market value. Fair market value is determined from quoted market prices.

Investments held at Greater Horizons are made according to the Investment Objectives and Policies adopted by the Foundation’s Board of Directors.

Donors with funds greater than \$50,000 may recommend an investment manager, provided that the manager and the firm meet established criteria established by the Investment Committee, and this recommendation is subject to the approval of the Investment Committee. The Investment Committee utilizes the investment pools managed by Greater Horizons to invest all other assets, other than those that are externally managed. Donors may make recommendations regarding investment options among the investment pools, but Greater Horizons makes the asset allocation decisions and fund selection decision for these investment pools.

Realized and unrealized gains and losses from securities in the investment pools are allocated monthly to the individual accounts based on the relationship of the market value of each account to the total market value of the investment pools.

Marketing

Marketing costs, if any, are expensed as incurred. Total marketing costs for the years ended December 31, 2021 and 2020 are \$19,742 and \$17,668, respectively.

Promises to Give/Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Pledges are presented at present value, net of any allowance for doubtful accounts. As of December 31, 2021, and 2020, pledges receivable total \$0 and \$0, respectively.

Compensated Absences

Compensated absences are not recognized separately on the financial statements, as they are not material to the overall financial statement presentation.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property and Equipment

Equipment is stated at cost or, if donated, at the fair market value on the date the equipment is contributed. Additions, improvements, and expenditures for repairs and maintenance that significantly add to the productivity or extend the useful life of the assets are capitalized. Other expenses for repairs and maintenance are charged to operations when incurred. It is the Foundation's policy to capitalize most acquisitions in excess of \$1,000. Assets are depreciated using the straight-line method over the estimated useful life of the asset. Repairs, maintenance, and minor acquisitions are expensed as incurred, and the Foundation uses the direct expense method to account for planned major maintenance activities. Depreciation expense for the years ended December 31, 2021 and 2020 was \$2,574 and \$2,447, respectively.

Reserve for Agency Funds

The Foundation follows guidance provided by Generally Accepted Accounting Principles (GAAP) which establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to an entity that is specified by the donor. The standards specifically require that if a 501 (c) (3) public charity organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability.

Contributed Services

As a nonprofit organization, the Foundation is able to provide its services to the community in large part due to the dedicated support of its volunteer board members. Services provided have not been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer efforts have not been satisfied.

Allocation of Expenses by Function

Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by the Foundation's management. Such costs are identified in the Statement of Functional Expenses. Certain categories of expenses are attributed to both Program Services and Management and General Expenses. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses are allocated on the basis of estimates of time and effort. Accordingly, certain estimates have been made to allocate costs among the program and supporting activities.

Grants and Distributions

Grants and philanthropic distributions for the years ended December 31, 2021 and 2020 totaled \$7,138,665 and \$5,750,540, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles of the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue and Revenue Recognition

An entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when earned. Contributions are recognized when cash, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. The adoption of Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) had no impact on revenue or net assets.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2 – NATURE OF THE ORGANIZATION

The Foundation partners with Greater Horizons (administered by the Greater Kansas City Community Foundation) for financial management and investment accounting services for all funds under its stewardship. These “Back Office Operations” are covered by a Service Organization Control Report (SOC 1) issued by KPMG LLP. Through the partnership with Greater Horizons, the Foundation pools its assets with more than two dozen other community foundations. Combined pooled assets exceed \$5 billion held in more than 6,000 charitable funds. Greater Horizons provides fund accounting and enhanced donor services to the Foundation’s donors and is compensated for these services.

Fund Agreements

Donations are held under fund agreements between the Foundation and donors; these donations may be established as either spendable or endowment funds. There are several types of fund agreements that are managed by the Foundation:

Donor Advised Fund – This is an irrevocable gift to serve as a charitable resource for the general welfare, benefit and support of the religious, educational, and/or charitable needs of organizations determined to be tax exempt under Section 501 (c) (3) of the Internal Revenue Code (Title 26 United States Code). Distributions from the funds may be made as set forth in the fund agreement and upon approval by the Board of the Foundation. Donor Advised Funds are shown in the financial statements as either net assets with donor restrictions or net assets without donor restrictions.

Designated Fund – This is an irrevocable gift by a donor to further the charitable purposes of a specified organization determined to be tax exempt under Section 501 (c) (3) of the Internal Revenue Code (Title 26 United States Code). Distributions from the funds may be made as set forth in the fund agreement and upon approval by the Board of the Foundation. Designated Funds are shown in the financial statements as net assets with donor restrictions.

Field of Interest Fund – This is an irrevocable gift by a donor to support a broad charitable area of interest or to support more than one specified organization determined to be tax exempt under Section 501(c)(3) of the Internal Revenue Code (Title 26 United States Code). Distributions from the funds may be made as set forth in the fund agreement and upon approval by the Board of the Foundation. Field of Interest Funds are shown in the financial statements as net assets with donor restrictions.

Agency Fund – This is a fund established by a Greater Huntsville area organization determined to be tax exempt under Section 501 (c) (3) of the Internal Revenue Code (Title 26 United States Code) to further its charitable purposes. Distributions from the fund may be made as set forth in the fund agreement and upon approval by the Board of the Foundation. Agency Funds are shown in the financial statements as a liability on the Statement of Financial Position.

Scholarship Fund – This is an irrevocable gift by a donor to support scholarships for deserving students, subject to the requirements and restrictions found within the Pension Protection Act of 2006. Distributions from the funds may be made as set forth in the fund agreement and upon approval by the Board of the Foundation. Scholarship Funds are shown in the financial statements as net assets with donor restrictions.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2 – NATURE OF THE ORGANIZATION – CONTINUED

Fund agreements (continued)

The Board of Directors determines the investment policy, administrative fees and required contributions of all managed funds. For donor-advised funds, donors indicate their successor advisors and may provide information regarding charitable interests.

Cash and Investment Accounts

Cash and investments consist primarily of various accounts at Greater Horizons and Servis First Bank. There are also limited investment accounts held by various external fund managers, as is outlined in the investment policy and discussed in Note 3. The Foundation has an Investment Committee to monitor the investment of the assets.

Investment Policy

The Board of Directors is authorized to and has adopted an investment policy for the Foundation. The Board of Directors has reserved the power to amend the investment policy. The Foundation utilizes Greater Horizons' investment pools and investment mixes for all of the funds that are not externally managed. These funds are invested according to the fund objective, whether that be risk-averse, conservative, moderate, moderately-aggressive, aggressive, or some variation thereof. Donors may recommend an investment option, but that option is subject to approval of the Investment Committee. Investment options for the externally managed funds are reviewed by and are subject to approval of the Investment Committee.

NOTE 3 – INVESTMENTS

Investments consisted of the following at December 31, 2021 and 2020:

		2021		2020
Short-Term Fixed Income Pool	\$	7,579,873	\$	4,434,848
Intermediate Fixed Income Pool		3,365,828		3,118,795
Equity Pool - Domestic		9,107,529		7,204,861
Equity Pool - International		3,329,237		2,637,975
Externally managed accounts		9,028,964		6,965,591
Deposits in transit		96,989		364,314
Total investments	\$	32,508,420	\$	24,726,384

Additionally, during 2018 the Foundation invested in \$4,000,000 of government-backed bonds as part of the Community Reinvestment Act (CRA) program. An additional \$2,000,000 was invested in 2020, for a total of \$6,000,000. This is included as an Other Asset on the December 31, 2021 and 2020 Statements of Financial Position, and is discussed further in Note 13.

Investment return is summarized as follows:

		2021		2020
Investment income	\$	736,561	\$	619,790
Net realized and unrealized gains (losses) on investments		2,392,691		1,559,332
Total investment income	\$	3,129,252	\$	2,179,122

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3 – INVESTMENTS – CONTINUED

Because of the “pooling” of investments with Greater Horizons, the Foundation does not disclose the carrying amounts of investments by major types of security; however, the pools are generally invested as follows:

Equity Pool – Domestic – The goal of the Equity Pool - Domestic is to provide a broad market exposure with passive, cost effective United States equity investments in segmented and indexed stock mutual funds that diversify across market capitalizations and regions.

Equity Pool – International – The goal of the Equity Pool - International is to provide a broad market exposure with passive, cost effective international equity investments in segmented and indexed stock mutual funds that diversify across market capitalizations and regions.

Short-Term and Intermediate-Term Fixed Income Pools – The purpose of the Fixed Income Pools is to provide capital preservation and current income in using passive, cost-effective investments in U.S. Treasury notes and bonds, corporate bonds, bank loans, mortgage backed securities, and U.S. Treasury Inflation Protected Securities.

Externally Managed Accounts (Other) – The Foundation allows donors to use their own trusted financial advisor to manage a customized charitable investment portfolio under the umbrella of the Foundation. These separately managed accounts are able to make use of any of the above types of investment classifications.

NOTE 4 – ENDOWMENT FUNDS AND SPENDING POLICY

Endowment funds include assets contributed to the Foundation with the intention that the assets remain in perpetuity with the Foundation. The Board intends to spend from these assets only an amount allowable under its spending policy. This policy is established by the Board and states that the spending rate will be 5% annually, and includes funds available for both grants and administrative fees. This policy is calculated each year using the trailing average of the market value of the funds for the preceding 12 quarters ending on December 31. The distribution that may be spent pursuant to this policy may be drawn from either ordinary income earned or from principal. This policy sets a maximum amount available for spending but does not mandate that such an amount be spent.

There are several types of endowment funds held at the Foundation. The Compass Endowment Fund, previously the Catalyst Endowment Fund, is a fund which was established to support charitable purposes in the Greater Huntsville area. This donor restricted fund was established as an endowment fund, as the intent is for the fund to support the needs of our community forever. Endowed designated nonprofit funds may be established as a result of a third party establishing an endowed fund to benefit a specific organization. There are also endowed donor advised funds, which are established for charitable purposes and may make distributions each year. All endowment funds are subject to the Foundation’s spending policy. Contributions to these funds are considered to be net assets with donor restrictions, as the intent is for the funds to remain in perpetuity with the Foundation. In appropriating an amount for expenditure, the Board must carefully consider its spending policy, which is based on the factors listed in the Uniform Prudent Management of Institutional Funds Act (UPMIFA), enacted by Alabama in 2008. These factors include preservation of the

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4 – ENDOWMENT FUNDS AND SPENDING POLICY–CONTINUED

fund, general economic conditions, inflation or deflation, and the expected total return from income and appreciation of the investments. Investment policies of the endowment funds are the same as other funds held by the Foundation and are discussed in Note 2.

As discussed in Note 10, nonprofit organizations may set up funds for their own benefit under agency agreements. Presently, there are three such agency funds held as endowments.

Planned appropriation for expenditures for the upcoming year is anticipated to remain at 5%.

The Foundation may also have “quasi-endowment” funds. These funds have characteristics of an endowment but have some characteristic that precludes it from being considered a true endowed fund. At December 31, 2021 the Board held four quasi-endowment agency funds, as well as the Community Foundation operating quasi-endowment. At December 31, 2020, the Foundation held no such funds.

Endowment Net Asset Composition by Type of Fund

	2021	2020
Compass Endowment Fund	\$ 1,120,497	\$ 889,824
Community Foundation Operating quasi-endowment	122,271	4,499
Endowed designated nonprofit fund	640,991	532,683
Endowed field of interest fund	1,217,483	566,178
Endowed donor advised funds	819,879	656,005
Quasi-endowed designated funds	0	0
Endowed funds less agency endowments	3,921,121	2,649,189
Endowed and quasi-endowed nonprofit agency funds	1,173,915	553,939
Total Endowed Funds	\$ 5,095,036	\$ 3,203,128
Endowment Funds (excluding agency funds)	2021	2020
Net assets, beginning of year	\$ 2,649,189	\$ 2,299,703
Reclassification of fund types	0	(209,579)
Investment return	52,769	46,536
Realized gains/losses	146,665	149,224
Unrealized gains/losses	173,400	95,186
Contributions	945,874	307,736
Net assets released from restriction	(46,776)	(39,617)
Net assets end of year	\$ 3,921,121	\$ 2,649,189

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors. The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law.

At December 31, 2021 and 2020, funds with deficiencies of \$302 and \$1, respectively, were reported in net assets with donor restrictions. These deficiencies can be attributed primarily to timing at December 31, 2021 and 2020, rather than overspending from the fund, as all funds were in compliance with the spending policy.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4 – ENDOWMENT FUNDS AND SPENDING POLICY– CONTINUED

	2021	2020
Fair value of underwater endowment funds	\$ 499,698	\$ 4,499
Original endowment gift amount	500,000	4,500
Deficiencies of underwater endowment funds	\$ (302)	\$ (1)

Return Objectives and Risk Parameters – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment accounts while seeking to maintain the purchasing power of its endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as endowed nonprofit funds.

The Foundation expects its endowment funds to provide an average annual real rate of return, net of fees, equal to or greater than spending, administrative fees and inflation. Actual returns in any given year may vary from this amount. The Foundation 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 Foundation targets a diversified asset allocation.

In establishing the investment and spending policies, the Foundation considered the expected return on its endowment. Accordingly, the Foundation expects the current spending policy to allow its endowment to maintain its purchasing power by growing as a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement dates. A fair value measurement assumes that the transaction to see the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value in three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Foundation has the ability to access.

Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Foundation’s own data.)

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5 – FAIR VALUE MEASUREMENTS – CONTINUED

The following table presents the Foundation’s fair value hierarchy for those Level 1 measured at fair value on a recurring basis and Level 3 assets measured at estimated fair market values, with the real estate estimate based on recent sales in nearby areas, as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Investments				
Equity Pool - Domestic	\$ 9,107,529	\$ 0	\$ 0	\$ 9,107,529
Equity Pool - International	3,329,237	0	0	3,329,237
Short Term Fixed Income Pool	7,579,873	0	0	7,579,873
Intermediate Fixed Income Pool	3,365,828	0	0	3,365,828
Externally Managed Accounts	9,028,964	0	0	9,028,964
Deposits in Transit	96,989	0	0	96,989
Totals	<u>\$ 32,508,420</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,508,420</u>
Other Assets				
Stock Warrants	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,600</u>	<u>\$ 11,600</u>

The following table presents the Foundation’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Investments				
Equity Pool - Domestic	\$ 7,204,861	\$ 0	\$ 0	\$ 7,204,861
Equity Pool - International	2,637,975	0	0	2,637,975
Short Term Fixed Income Pool	4,434,848	0	0	4,434,848
Intermediate Fixed Income Pool	3,118,795	0	0	3,118,795
Externally Managed Accounts	6,965,591	0	0	6,965,591
Deposits in Transit	364,314	0	0	364,314
Totals	<u>\$ 24,726,384</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,726,384</u>
Other Assets				
Stock Warrants	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,600</u>	<u>\$ 11,600</u>
Real Estate – Land	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 107,650</u>	<u>\$ 107,650</u>

Stock Warrants Level 3 asset was contributed in 2019. Real Estate – Land was donated to the Foundation in 2020.

Additionally, in 2018 the Foundation purchased an investment of \$4,000,000 as part of the Community Reinvestment Act transaction, discussed in Note 13. An additional \$2,000,000 was invested in 2020. This investment in government-backed bonds is a Level 1 investment.

Level 3 asset Land was sold in 2021 for \$83,055, resulting in a loss of \$24,595. There were no sales of any Level 3 assets for the year ended December 31, 2020.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6 – COMPOSITION OF NET ASSETS

Net Assets without Donor Restrictions – As discussed in Note 1, Net Assets without Donor Restrictions are comprised of those funds that have no time or purpose restriction established by the donor. The operating funds for the Community Foundation of Greater Huntsville is also included in this designation of net assets. Details of these net assets are as follows:

	2021	2020
Community Foundation Operating Fund	\$ 134,749	\$ 202,643
Partners in Philanthropy Fund	378,111	188,237
Community Foundation operating quasi-endowment	122,271	0
Donor-advised funds	<u>28,337,888</u>	<u>23,475,720</u>
Net Assets without Donor Restrictions	<u>\$ 28,973,019</u>	<u>\$ 23,866,600</u>

Net Assets with Donor Restrictions – As discussed in Note 1, Net Assets with Donor Restrictions are comprised of those funds that have a restriction placed on them by the donor. This restriction may be a restriction of purpose or a restriction related to the passage of time. Details of these net assets are as follows:

	2021	2020
Donor advised endowed funds	\$ 819,879	\$ 656,005
Designated endowed funds	640,991	532,682
Field of Interest endowed funds	1,217,785	566,178
The Compass Endowment	1,120,497	889,824
Community Foundation operating endowment	0	4,500
Designated funds	3,071,823	1,719,473
Field of Interest funds	1,143,545	749,974
Scholarship funds	189,855	149,932
Underwater endowments	<u>(302)</u>	<u>(1)</u>
Net Assets with Donor Restrictions	<u>\$ 8,204,073</u>	<u>\$ 5,268,567</u>

NOTE 7 – VARIANCE POWER

The Foundation’s governing documents include a variance provision giving the Board of Directors the power to modify any restriction or condition placed on any gift given to the Foundation. This includes funds with donor-imposed restrictions, if, in its sole judgment, the Board determines that the restriction becomes, in effect, incapable of fulfillment or inconsistent with the charitable needs of the community. Presently, all funds classified as net assets with donor restrictions have been determined by the Board of Directors to be consistent with the charitable needs of the community.

NOTE 8 – EMPLOYER CONTRIBUTION TO RETIREMENT

Employees of the Foundation may contribute up to \$12,500 annually of their pre-tax salary to a SIMPLE IRA, with a catch-up provision of an additional \$3,000 contributed annually available to employees over 50. Additionally, the Foundation will match up to 3.0% of the employee’s salary up to the limit. During the years ended December 31, 2021 and 2020, the Foundation recognized expense relating to this matching contribution of \$8,819 and \$8,694 respectively.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2021 and 2020:

	December 31, 2020	Additions	Retirements & Reclassifications	December 31, 2021
Computers and equipment	\$ 9,054	\$ 0	\$ 0	\$ 9,054
Furniture and fixtures	6,463	0	0	6,463
Accumulated depreciation	<u>(7,622)</u>	<u>(2,574)</u>	<u>0</u>	<u>(10,196)</u>
Total property and equipment, net	<u>\$ 7,895</u>	<u>\$ (2,574)</u>	<u>\$ 0</u>	<u>\$ 5,321</u>

	December 31, 2019	Additions	Retirements & Reclassifications	December 31, 2020
Computers and equipment	\$ 9,054	\$ 0	\$ 0	\$ 9,054
Furniture and fixtures	2,648	3,815	0	6,463
Accumulated depreciation	<u>(5,176)</u>	<u>(2,446)</u>	<u>0</u>	<u>(7,622)</u>
Total property and equipment, net	<u>\$ 6,526</u>	<u>\$ 1,369</u>	<u>\$ 0</u>	<u>\$ 7,895</u>

NOTE 10 – RESERVE FOR AGENCY FUNDS

Unaffiliated nonprofit organizations have set up funds with the Foundation for their own benefit under agency agreements. The net investment activity and related management fees are allocated to each separate fund account. The balances of such funds at December 31, 2021 and 2020 were \$4,680,475 and \$2,713,854, respectively, and are recognized as a liability on the Foundation's books.

The Foundation has variance power over these funds.

NOTE 11 – CONCENTRATION OF CREDIT RISK

The Foundation maintains cash balances at a Huntsville, Alabama commercial bank. The Federal Deposit Insurance Corporation provides insurance coverage up to \$250,000 for accounts held by each bank. At December 31, 2021 and 2020, the Foundation had uninsured cash balances totaling \$1,676,771 and \$2,688,879, respectively.

The Foundation also has cash balances held by Greater Horizons. Greater Horizons maintains cash balances in financial institutions and in money market funds. Some of these funds may be uninsured; however, cash holdings are maintained as provided in the agreement with Greater Horizons.

NOTE 12 – CONTRIBUTIONS FROM BOARD MEMBERS

The Foundation received a percentage of unrestricted operating fund income from contributions made by members of the Board of Directors. For the years ended December 31, 2021 and 2020, these percentages were 10% and 18%, respectively.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 13 – COMMUNITY REINVESTMENT ACT

During 2018, the Foundation entered into a loan agreement with Cadence Bank involving securities related to the Community Reinvestment Act. Under the terms of the agreement, Cadence issued a promissory note to the Foundation in the amount of \$4,000,000 at a below market interest rate of 2%. The proceeds from this loan were used to purchase GNMA and other government-secured bonds of \$4,000,000 with a rate of 3.5% to collateralize the loan. An additional \$2,000,000 was invested in 2020, for a total of \$6,000,000. Cadence bears any market risk associated with the bonds. The spread between the investment return on the bonds and the interest rate due on the loan will be used by the Community Foundation to fund grants to support low-to-moderate income community projects. Cadence will guarantee income from the spread of \$90,000 for one year. This transaction will be renewable annually, and both parties have the right to terminate the loan at any time. The initial loan is dated February 28, 2018, and has been renewed annually.

NOTE 14 – LEASE FOR OFFICE SPACE

During 2018, the Foundation entered into a lease for office space. The lease was effective June 1, 2018, and will terminate on May 31, 2023. Rent expense for the years ended December 31, 2021 and 2020 was \$29,100 and \$29,100, respectively. Rent under the lease is \$2,425 per month, as follows:

June 1, 2021 – May 31, 2022	\$ 29,100
June 1, 2022 – May 31, 2023	<u>29,100</u>
Total	<u>\$ 58,200</u>

NOTE 15 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following:

	2021	2020
Operating fund	\$ 134,749	\$ 202,643
Partners in Philanthropy reserve fund	<u>378,111</u>	<u>188,237</u>
	<u>\$ 512,860</u>	<u>\$ 390,880</u>

The above assets do not include \$28,337,888 and \$23,475,720 in donor-advised funds without restrictions as of December 31, 2021 and 2020, respectively. The Foundation generally uses these assets for grantmaking based on donor recommendations rather than for operations. Also not included is the \$122,271 Community Foundation operating quasi-endowment fund held at December 31, 2021; a 2/3 vote by the Board of Directors is required invade principal. The operating fund receives both contributions designated for operations and administrative fees that are earned by the Foundation for fund management. As of December 31, 2021, the Foundation has available cash to cover approximately eleven months of operating expenses.

As part of the Foundation’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due and payable. The Foundation invests cash in excess of daily requirements in various short and long-term investments. To help manage unanticipated liquidity needs, the Foundation has Board Designated net assets without donor restriction that, while the Foundation does not intend to spend these for purposes other than those identified, the amounts could be made available for current operations if necessary. Occasionally, the Board will designate a portion of any operating surplus to its operating reserve.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 16 – NOTES RECEIVABLE

In 2019, the Foundation was the recipient of donated stock valued at \$1,957,500. The Foundation subsequently sold the stock in exchange for two promissory notes, as follows: a senior seller note in the amount of \$528,525, which accrued interest at 5.5% and was payable over five years, and a junior seller note in the amount of \$1,428,975, which accrues interest at the rate of 6.5% and is payable over fifteen years. In 2021, the senior seller note was paid off and an additional principal payment of \$145,000 was received on the junior seller note.

The amounts receivable for the following five years are as follows:

	Junior Seller Note	
	Principal	Interest
2022	\$ 126,743	\$ 69,450
2023	147,132	66,897
2024	156,985	57,043
2025	167,499	46,530
2026	178,716	35,312
Thereafter	445,501	34,465
	<u>\$ 1,222,576</u>	<u>\$ 309,697</u>

NOTE 17 – COVID-19 IMPACTS

The World Health Organization declared the COVID-19 outbreak a public health emergency on January 30, 2020. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. Anticipating the impact of the pandemic will make budget preparation difficult. At this time, an estimate of the financial statement effect of the event cannot be made.

NOTE 18 - CHANGE IN ACCOUNTING PRINCIPLE

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued new auditing standards – Statements on Auditing Standards (SAS) 134-140 – that require modifying the auditor’s report and communication to those charged with governance as well as requiring additional audit procedures over related party relationships and significant unusual transactions. These new pronouncements are effective for entities with periods ending on or after December 15, 2021. Therefore, these changes apply and have been implemented as of December 31, 2021. This implementation had no impact on net assets.

NOTE 19 – SUBSEQUENT EVENTS

We have evaluated events and transactions for potential recognition or disclosure through May 25, 2022, the date the financial statements were available to be issued.