

THE GERBER FOUNDATION

FINANCIAL STATEMENTS - MODIFIED CASH BASIS

Years Ended December 31, 2019 and 2018

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS - MODIFIED CASH BASIS	3
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS	4
STATEMENTS OF REVENUE, EXPENSES, AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS	5
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS	6
NOTES TO FINANCIAL STATEMENTS	7

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Trustees
The Gerber Foundation
Fremont, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of The Gerber Foundation, which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and other changes in net assets – modified cash basis and cash flows – modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Gerber Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended on the modified cash basis of accounting as described in Note 1.

Basis of Accounting

Note 1 of the financial statements describes the basis of accounting. The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to that matter.

Emphasis

As described in Note 3 to the financial statements, the financial statements include investments valued at \$44,331,377 (58.88% of net assets) at December 31, 2019 whose fair values have been estimated by management in the absence of readily determinable fair values. Management estimates are based on information provided by the fund managers. Our opinion is not modified with respect to that matter.

Beene Garter LLP

June 29, 2020
Grand Rapids, Michigan

FINANCIAL STATEMENTS - MODIFIED CASH BASIS

THE GERBER FOUNDATION

STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash	\$ 277,227	\$ 40,612
Investments at fair value	75,002,173	69,630,204
Office equipment and software	88,849	88,849
Accumulated depreciation	<u>(74,565)</u>	<u>(60,601)</u>
	<u>14,284</u>	<u>28,248</u>
TOTAL ASSETS	<u><u>\$ 75,293,684</u></u>	<u><u>\$ 69,699,064</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Amounts withheld from employees	\$ 2,927	\$ 3,908
Net Assets Without Donor Restrictions	<u>75,290,757</u>	<u>69,695,156</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 75,293,684</u></u>	<u><u>\$ 69,699,064</u></u>

See accompanying notes

THE GERBER FOUNDATION

STATEMENTS OF REVENUE, EXPENSES, AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenue		
Interest and dividends on investments	\$ 173,945	\$ 367,875
Net gain (loss) on investments	<u>9,570,900</u>	<u>(4,160,265)</u>
TOTAL REVENUE	9,744,845	(3,792,390)
Expenses		
Program services	4,012,138	3,293,454
Support services		
Administrative	<u>137,106</u>	<u>230,693</u>
TOTAL EXPENSES	4,149,244	3,524,147
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	5,595,601	(7,316,537)
Net Assets Without Donor Restrictions at Beginning of Year	<u>69,695,156</u>	<u>77,011,693</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	<u>\$ 75,290,757</u>	<u>\$ 69,695,156</u>

See accompanying notes

THE GERBER FOUNDATION

STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets without donor restrictions	\$ 5,595,601	\$ (7,316,537)
Adjustments to reconcile change in net assets without donor restrictions to net cash used by operating activities		
Depreciation and amortization	13,964	14,425
Realized gain on sale of investments	(1,620,290)	(3,996,174)
Unrealized (gain) loss on investments	(8,186,983)	7,894,823
Changes in operating liabilities		
Amounts (paid to) withheld from employees	(981)	1,023
NET CASH USED BY OPERATING ACTIVITIES	(4,198,689)	(3,402,440)
Cash Flows from Investing Activities		
Proceeds from sale and maturities of investments	23,564,590	20,439,717
Purchase of investments	(19,129,286)	(17,067,754)
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,435,304	3,371,963
NET INCREASE (DECREASE) IN CASH	236,615	(30,477)
Cash at Beginning of Year	40,612	71,089
CASH AT END OF YEAR	\$ 277,227	\$ 40,612
Supplemental Information		
Cash paid for federal income and excise taxes	\$ 70,120	\$ 166,375

See accompanying notes

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

The Gerber Foundation (Foundation) was established in 1952 as an independent private foundation governed by a Board of Trustees who serve without compensation. Income is derived from a diversified portfolio and is used to award grants to qualified applicants in furtherance of the Foundation's mission to enhance the quality of life of infants and young children through nutrition, care and development. Grants from the Foundation are made to organizations recognized as exempt under Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting

The Foundation's financial statements are prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Under the modified cash basis of accounting, revenues are recognized when collected rather than when earned, and expenditures generally are recognized when paid rather than when incurred. Accrued expenses and grant commitments are not recorded in the financial statements. Purchased assets with estimated useful lives of more than one year are capitalized and depreciated or amortized over the assets' estimated useful lives.

Basis of Presentation

The Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The Foundation has no net assets with donor restrictions.

Cash

The Foundation maintains its cash at one financial institution. The operating cash account is maintained at a bank that is insured by the Federal Deposit Insurance Corporation (FDIC). From time to time during the year, the Foundation may have cash on deposit in excess of the respective insured limits.

Investments

The Foundation utilizes one financial institution to account for all investments. Actual investments are maintained by various respective investment firms. The accounts at each investment firm are insured up to \$500,000 each, by the Securities Investor Protection Corporation. Up to \$100,000 of this coverage may be applied toward uninvested cash (see Note 3). Realized and unrealized gains and losses and other investment earnings are included in the statement of revenue, expenses, and other changes in net assets-modified cash basis.

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Derivative Accounting for Hedge Funds

The Foundation has investments with several hedge funds that seek higher returns than fixed income funds, have similar volatility, and also have a low correlation with traditional equity and fixed income assets.

The investment objectives of this fund are two-fold. The primary objective is to generate over a full market cycle returns higher than the “market” as represented by a style index or mix of indexes reflective of the Foundation’s return objectives and risk tolerance. The secondary objectives are to produce a real return goal of inflation plus 5%, to have the dollar weighted average return exceed a long-term return of 8%, and to outpace the style index return and real return market, each measured on a compound average annual return basis after the deduction of investment management fees and annualized over a three to five year rolling time period and a full market cycle. There is no assurance that these objectives will be achieved.

Fair Value Measurements

Fair value measurement accounting standards establish a common definition of fair value, provide a framework for measuring fair value based on inputs used to value the Foundation’s investments, and require disclosure about such fair value measurements. 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 date (exit price). In determining fair value, various valuation approaches are used. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 unadjusted quoted prices in active markets for identical assets or liabilities.
 - Level 2 other significant inputs including quoted prices of similar assets or liabilities, interest rates, credit risk, etc.
 - Level 3 significant unobservable inputs which may include the Foundation’s own assumptions in determining fair value.
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THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Office Equipment and Software

Office equipment and computer software is stated at cost, if purchased, or at fair value on date of acquisition, if donated. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

Revenue and Investment Income

The Foundation recognizes revenue and investment income as follows:

- Revenues are reported as increases in net assets without donor restrictions when collected unless use of the related assets is limited by donor-imposed restrictions.
- Investment income, including gains and losses on investments and other assets or liabilities, are reported as increases or decreases in net assets without donor restrictions when collected unless their use is restricted by explicit donor stipulations.

Income Taxes

The Internal Revenue Service has determined the Foundation is a tax-exempt private foundation as defined by Section 501(c)(3) of the Internal Revenue Code (IRC), but is subject to a federal excise tax on net investment income, including realized gains as defined in the IRC.

The IRC requires that certain minimum distributions be made in accordance with a specified formula. According to this formula, the Foundation must distribute currently for charitable purposes 5% of the average fair value of its nonoperating assets in each tax year. Failure to distribute the required amount by the last day of the following year may result in excise taxes on the Foundation's undistributed income within the tax year or within the next succeeding tax year.

As permitted, management intends to distribute sufficient amounts to cover IRC required distributions in the subsequent tax year.

In addition, the Foundation files a 990-T form to report certain taxable investment activity.

Tax positions taken are assessed for uncertainty and a provision may be recorded if a tax position is not likely to be sustained upon examination.

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Functional Expenses

The Gerber Foundation is required by U.S. generally accepted accounting principles to report expenses on a functional basis by program. The expenses are reported functionally in Note 7. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events

Management has evaluated significant events or transactions occurring subsequent to December 31, 2019 for potential recognition or disclosure in these financial statements. The evaluation was performed through June 29, 2020, the date the financial statements were available for issuance. See Note 8 for subsequent event.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The Foundation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in market values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

NOTE 2 - LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of assets, liabilities, and net assets – modified cash basis date are comprised of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Cash	\$ 277,227	\$ 40,612
Cash equivalents at investment companies	649,341	686,826
Assets readily convertible to cash within 30 days	<u>44,331,377</u>	<u>36,616,968</u>
	<u>\$ 45,257,945</u>	<u>\$ 37,344,406</u>

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

As part of the Foundation's liquidity management plan, certain funds are invested according to a board approved liquidity policy which provides that certain assets within the portfolio with daily or monthly liquidity will be maintained equivalent to an amount that would sufficiently cover commitments for at least five years.

The Foundation requires cash and cash equivalent balances to support a minimum of three months of grant and general office costs.

NOTE 3 - INVESTMENTS

Investments consist of the following:

	2019			2018		
	Cost	Unrealized Gain (Loss)	Fair Value	Cost	Unrealized Gain (Loss)	Fair Value
Cash and cash equivalents	\$ 649,341	\$ -	\$ 649,341	\$ 686,826	\$ -	\$ 686,826
Alternative investments						
Limited liability corporations	641,209	(408,775)	232,434	647,303	(285,838)	361,465
Limited partnerships	33,683,785	10,415,158	44,098,943	28,927,790	7,296,288	36,224,078
Equity securities						
World index funds	19,705,393	5,643,670	25,349,063	22,651,189	991,981	23,643,170
Moderate Allocation	-	-	-	4,338,110	(504,194)	3,833,916
Fixed income funds	4,636,839	35,553	4,672,392	4,880,365	384	4,880,749
	<u>\$ 59,316,567</u>	<u>\$ 15,685,606</u>	<u>\$ 75,002,173</u>	<u>\$ 62,131,583</u>	<u>\$ 7,498,621</u>	<u>\$ 69,630,204</u>

Net gain (loss) on investments consists of the following:

	2019	2018
Realized gains	\$ 1,620,290	\$ 3,996,174
Unrealized gains (losses)	8,186,983	(7,894,823)
Investment fees	(236,373)	(261,616)
	<u>\$ 9,570,900</u>	<u>\$ (4,160,265)</u>

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

The Foundation invests in certain alternative investments which include investments in hedge funds. Market values represent the Foundation's pro rata interest in the net assets of each alternative investment as of December 31, 2019 and 2018, as provided by the fund managers. Market values as of December 31, 2019 and 2018 may be based on audited financial information or on financial data supplied by the general partner or manager of the funds. Management reviews monthly valuations provided by the general partner or manager of the funds and assesses the reasonableness of the fair values provided at the interim dates and included in the financial statements.

The tables that follow set forth information about the level within the fair value hierarchy at which the Foundation's investments are measured at December 31, 2019 and 2018:

	2019 - Based on			Total
	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Unobservable Inputs	
Cash and cash equivalents	\$ 649,341	\$ -	\$ -	\$ 649,341
Alternative investments				
Limited liability corporations	-	-	232,434	232,434
Limited partnerships	-	-	44,098,943	44,098,943
Equity securities				
World index funds	-	25,349,063	-	25,349,063
Fixed income funds	4,672,392	-	-	4,672,392
	<u>\$ 5,321,733</u>	<u>\$ 25,349,063</u>	<u>\$ 44,331,377</u>	<u>\$ 75,002,173</u>
	2018 - Based on			
	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Unobservable Inputs	Total
Cash and cash equivalents	\$ 686,826	\$ -	\$ -	\$ 686,826
Alternative investments				
Limited liability corporations	-	-	361,465	361,465
Limited partnerships	-	-	36,224,078	36,224,078
Equity securities				
World index funds	4,375,538	19,267,629	-	23,643,167
Moderate Allocation	3,833,919	-	-	3,833,919
Fixed income funds	4,880,749	-	-	4,880,749
	<u>\$ 13,777,032</u>	<u>\$ 19,267,629</u>	<u>\$ 36,585,543</u>	<u>\$ 69,630,204</u>

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Following is a reconciliation of activity for assets measured at fair value based on significant unobservable (Level 3) information:

	Level 3 Investments	
	2019	2018
Balance, beginning year	\$ 36,585,543	\$ 28,028,267
Realized gains included in change in net assets	1,499,184	1,159,751
Unrealized gains included in change in net assets	6,334,022	531,634
Purchases	11,610,018	10,843,036
Sales	(11,697,390)	(3,977,145)
Balance, end of year	<u>\$ 44,331,377</u>	<u>\$ 36,585,543</u>

NOTE 4 - COMMITMENTS FOR GRANTS

As of December 31, 2019, trustees of the Foundation have authorized the payment of grants in future periods as follows:

Year ending December 31:

2020	\$ 1,957,059
2021	1,422,624
2022	577,404
2023	117,000
	<u>\$ 4,074,087</u>

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

NOTE 5 - LEASE

The Foundation leases office space in Fremont, Michigan under an operating lease agreement from an unrelated party that expires on December 31, 2025. The agreement calls for monthly payments of \$1,500. Total lease expense for this office space was \$18,000 in 2019 and 2018.

Future minimum lease payments under this non-cancelable lease are as follows:

2020	\$	18,000
2021		18,000
2022		18,000
2023		18,000
2024		18,000
Thereafter		18,000
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	\$	108,000

NOTE 6 - RETIREMENT SAVINGS PLAN

The Foundation maintains a retirement savings plan under Internal Revenue Code Section 401(k) for eligible employees which allows for deferrals up to the maximum allowed under the Internal Revenue Code. The Foundation can make matching contributions at the discretion of the Board of Directors. Employer matching contributions which vest immediately, were \$18,289 and \$16,397 in 2019 and 2018, respectively.

NOTE 7 - FUNCTIONAL EXPENSE

Certain categories of expenses are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis consistently applied including, but not limited to, usage or space and estimates of time and effort.

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Expenses have been allocated for the Foundation as follows for the years ended December 31:

	2019		
	Program Services	Administrative	Total
Salaries and wages	\$ 86,535	\$ 15,271	\$ 101,806
Employee fringe benefits	15,546	2,743	18,289
Payroll taxes	6,797	1,199	7,996
Grants and scholarships paid	3,800,114	-	3,800,114
Contracted services	6,255	695	6,950
Office expenses	10,700	1,888	12,588
Occupancy	15,300	2,700	18,000
Travel	19,239	-	19,239
Conferences	2,720	-	2,720
Accounting and professional	-	40,622	40,622
Dues and subscriptions	17,629	-	17,629
Depreciation and amortization	13,853	111	13,964
Repairs and maintenance	5,348	-	5,348
Insurance	9,061	1,599	10,660
Taxes	-	70,120	70,120
Miscellaneous	3,041	158	3,199
	\$ 4,012,138	\$ 137,106	\$ 4,149,244
	2018		
	Program Services	Administrative	Total
Salaries and wages	\$ 84,022	\$ 14,827	\$ 98,849
Employee fringe benefits	13,937	2,460	16,397
Payroll taxes	6,628	1,170	7,798
Grants and scholarships paid	3,091,115	-	3,091,115
Contracted services	5,166	574	5,740
Office expenses	9,227	1,628	10,855
Occupancy	15,300	2,700	18,000
Travel	21,019	-	21,019
Conferences	610	-	610
Accounting and professional	-	39,205	39,205
Dues and subscriptions	16,084	-	16,084
Depreciation and amortization	14,299	127	14,426
Repairs and maintenance	5,954	-	5,954
Insurance	8,564	1,511	10,075
Taxes	-	166,375	166,375
Miscellaneous	1,529	116	1,645
	\$ 3,293,454	\$ 230,693	\$ 3,524,147

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

NOTE 8 - SUBSEQUENT EVENT

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions in the U.S and globally. On March 23, 2020, the Governor of the State of Michigan issued an Executive Order to “stay in place and suspend nonessential activities”. The stay-in-place order was lifted on June 1, 2020. The circumstances surrounding this widespread outbreak of COVID-19 are unknown at this time but management does not anticipate significant disruptions to the Foundation’s operations. At this time, given the uncertainty of the lasting effect of this outbreak, the financial impact to the Foundation cannot be determined.

The outbreak of COVID-19 discussed above has led to turbulence in the economy resulting in a decline in the market value of many investments. At the current time, a reasonable estimate of the impact on investments held has not been determined.