

THE GERBER FOUNDATION

FINANCIAL STATEMENTS - MODIFIED CASH BASIS

Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Gerber Foundation
Fremont, Michigan

Opinion

We have audited the accompanying financial statements of The Gerber Foundation, which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2021, and the related statement of revenues, expenses, and other changes in net assets – modified cash basis and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of The Gerber Foundation as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended, in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Opinion

We conducted our audit 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 Gerber Foundation and to meet our other ethical responsibilities in accordance with the 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 audit opinion.

Prior Period Financial Statements

The financial statements of The Gerber Foundation as of and for the year ended December 31, 2020 were audited by Beene Garter LLP whose report dated June 28, 2021 expressed an unmodified opinion on those statements.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which 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 \$70,126,691 (70.23% of net assets) at December 31, 2021 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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 Gerber Foundation'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 Gerber Foundation'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 Gerber Foundation'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.



Beene Garter
A Doeren Mayhew Firm
Grand Rapids, Michigan
September 29, 2022

FINANCIAL STATEMENTS - MODIFIED CASH BASIS

THE GERBER FOUNDATION

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

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash	\$ 187,666	\$ 117,661
Investments at fair value	99,666,214	81,517,420
Office equipment and software	88,848	88,848
Accumulated depreciation	<u>(88,848)</u>	<u>(88,657)</u>
	<u>-</u>	<u>191</u>
TOTAL ASSETS	<u>\$ 99,853,880</u>	<u>\$ 81,635,272</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Amounts withheld from employees	\$ 4,887	\$ 2,332
Net Assets Without Donor Restrictions	<u>99,848,993</u>	<u>81,632,940</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 99,853,880</u>	<u>\$ 81,635,272</u>

See accompanying notes

THE GERBER FOUNDATION

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

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue		
Interest and dividends on investments	\$ 4,533	\$ 60,082
Net gain on investments	<u>22,876,730</u>	<u>9,306,057</u>
TOTAL REVENUE	22,881,263	9,366,139
Expenses		
Program services	4,265,833	2,980,143
Support services		
Administrative	<u>399,377</u>	<u>43,813</u>
TOTAL EXPENSES	<u>4,665,210</u>	<u>3,023,956</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	18,216,053	6,342,183
Net Assets Without Donor Restrictions at Beginning of Year	<u>81,632,940</u>	<u>75,290,757</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	<u><u>\$ 99,848,993</u></u>	<u><u>\$ 81,632,940</u></u>

See accompanying notes

THE GERBER FOUNDATION

STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets without donor restrictions	\$ 18,216,053	\$ 6,342,183
Adjustments to reconcile change in net assets without donor restrictions to net cash used by operating activities		
Depreciation and amortization	191	14,093
Realized gain on sale of investments	(9,157,804)	(3,744,378)
Unrealized gain on investments	(14,233,632)	(5,778,953)
Changes in operating liabilities		
Amounts paid to employees	2,555	(595)
NET CASH USED BY OPERATING ACTIVITIES	(5,172,637)	(3,167,650)
Cash Flows from Investing Activities		
Proceeds from sale and maturities of investments	29,622,469	22,799,013
Purchase of investments	(24,379,827)	(19,790,929)
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,242,642	3,008,084
NET INCREASE (DECREASE) IN CASH	70,005	(159,566)
Cash at Beginning of Year	117,661	277,227
CASH AT END OF YEAR	\$ 187,666	\$ 117,661
Supplemental Information		
Cash paid (received) for federal income and excise taxes	\$ 330,000	\$ (22,013)

See accompanying notes

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 un-invested 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.

December 31, 2021 and 2020

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.
-

December 31, 2021 and 2020

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, 2021 and 2020

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, 2021 for potential recognition or disclosure in these financial statements. The evaluation was performed through July 27, 2022, the date the financial statements were available for issuance.

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, which 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>2021</u>	<u>2020</u>
Cash	\$ 187,666	\$ 117,661
Cash equivalents at investment companies	795,747	1,972,998
Assets readily convertible to cash within 30 days	<u>28,743,776</u>	<u>25,395,592</u>
	<u>\$ 29,727,189</u>	<u>\$ 27,486,251</u>

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2021 and 2020

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:

	2021			2020		
	Cost	Unrealized Gain (Loss)	Fair Value	Cost	Unrealized Gain (Loss)	Fair Value
Cash and cash equivalents	\$ 795,747	\$ -	\$ 795,747	\$ 1,972,998	\$ -	\$ 1,972,998
Alternative investments						
Limited liability corporations	3,631,558	(80,017)	3,551,541	3,634,675	(389,565)	3,245,110
Limited partnerships	41,309,173	25,265,977	66,575,150	35,995,110	14,908,610	50,903,720
Equity securities						
World index funds	12,034,780	10,705,182	22,739,962	12,156,417	6,877,931	19,034,348
Fixed income funds	6,025,447	(21,633)	6,003,814	6,293,663	67,581	6,361,244
	<u>\$ 63,796,705</u>	<u>\$ 35,869,509</u>	<u>\$ 99,666,214</u>	<u>\$ 60,052,863</u>	<u>\$ 21,464,557</u>	<u>\$ 81,517,420</u>

Net gain on investments consists of the following:

	2021	2020
Realized gains	\$ 9,157,804	\$ 3,744,378
Unrealized gains	14,233,632	5,778,953
Investment fees	(514,706)	(217,274)
	<u>\$ 22,876,730</u>	<u>\$ 9,306,057</u>

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2021 and 2020

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, 2021 and 2020, as provided by the fund managers. Market values as of December 31, 2021 and 2020 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, 2021 and 2020:

	2021 - Based on			Total
	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Unobservable Inputs	
Cash and cash equivalents	\$ 795,747	\$ -	\$ -	\$ 795,747
Alternative investments				
Limited liability corporations	-	-	3,551,541	3,551,541
Limited partnerships	-	-	66,575,150	66,575,150
Equity securities				
World index funds	-	22,739,962	-	22,739,962
Fixed income funds	6,003,814	-	-	6,003,814
	<u>\$ 6,799,561</u>	<u>\$ 22,739,962</u>	<u>\$ 70,126,691</u>	<u>\$ 99,666,214</u>
	2020 - Based on			
	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Unobservable Inputs	Total
Cash and cash equivalents	\$ 1,972,998	\$ -	\$ -	\$ 1,972,998
Alternative investments				
Limited liability corporations	-	-	3,245,110	3,245,110
Limited partnerships	-	-	50,903,720	50,903,720
Equity securities				
World index funds	-	19,034,348	-	19,034,348
Fixed income funds	6,361,244	-	-	6,361,244
	<u>\$ 8,334,242</u>	<u>\$ 19,034,348</u>	<u>\$ 54,148,830</u>	<u>\$ 81,517,420</u>

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2021 and 2020

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

	Level 3 Investments	
	2021	2020
Balance, beginning year	\$ 54,148,830	\$ 44,331,377
Realized gains included in change in net assets	8,758,300	3,077,764
Unrealized gains included in change in net assets	10,508,856	5,512,663
Purchases	19,611,085	11,833,695
Sales	(22,900,380)	(10,606,669)
Balance, end of year	\$ 70,126,691	\$ 54,148,830

NOTE 4 - COMMITMENTS FOR GRANTS

As of December 31, 2021, trustees of the Foundation have authorized the payment of grants in future periods as follows:

Year ending December 31:

2022	\$ 2,031,389
2023	1,824,779
2024	822,926
2025	160,000
	<u>\$ 4,839,094</u>

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, 2022. The agreement calls for monthly payments of \$1,125. Total lease expense for this office space was \$13,500 in 2021 and \$15,294 2020.

Future minimum lease payments under this non-cancelable lease are \$13,500 for the year ended December 31, 2022.

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2021 and 2020

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 \$18,200 and \$17,645 in 2021 and 2020, 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.

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

	2021		
	Program Services	Administrative	Total
Salaries and wages	\$ 101,608	\$ 17,931	\$ 119,539
Employee fringe benefits	15,470	2,730	18,200
Payroll taxes	7,999	1,412	9,411
Grants and scholarships paid	4,077,569	-	4,077,569
Contracted services	6,825	-	6,825
Office expenses	6,878	1,214	8,092
Occupancy	11,475	2,025	13,500
Travel	2,437	-	2,437
Accounting and professional	-	42,040	42,040
Dues and subscriptions	15,100	-	15,100
Depreciation and amortization	162	29	191
Repairs and maintenance	7,952	-	7,952
Insurance	10,281	1,814	12,095
Taxes	-	330,000	330,000
Miscellaneous	2,077	182	2,259
	<u>\$ 4,265,833</u>	<u>\$ 399,377</u>	<u>\$ 4,665,210</u>

THE GERBER FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2021 and 2020

	2020		
	Program Services	Administrative	Total
Salaries and wages	\$ 91,529	\$ 16,152	\$ 107,681
Employee fringe benefits	14,998	2,647	17,645
Payroll taxes	6,982	1,232	8,214
Grants and scholarships paid	2,788,181	-	2,788,181
Contracted services	6,185	-	6,185
Office expenses	7,442	1,313	8,755
Occupancy	13,000	2,294	15,294
Travel	986	-	986
Conferences	956	-	956
Accounting and professional	-	40,110	40,110
Dues and subscriptions	16,678	-	16,678
Depreciation and amortization	14,016	77	14,093
Repairs and maintenance	8,020	-	8,020
Insurance	10,111	1,784	11,895
Taxes refunded	-	(22,013)	(22,013)
Miscellaneous	1,059	217	1,276
	<u>\$ 2,980,143</u>	<u>\$ 43,813</u>	<u>\$ 3,023,956</u>

NOTE 8 - RISKS AND UNCERTAINTIES

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 significantly impacted the economic conditions in the U.S and globally throughout 2020 and 2021. While many industries have returned to normal operating conditions, there is still uncertainty around future outbreaks and related economic effects. At this time management does not anticipate significant disruptions in the Foundation's operations.