

Elizabeth Morse Genius Foundation

Financial Statements

December 31, 2021

Independent Auditors' Report

**To the Board of Trustees
Elizabeth Morse Genius Foundation**

Opinion

We have audited the accompanying financial statements of the Elizabeth Morse Genius Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2021 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Elizabeth Morse Genius Foundation as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Foundation's ability to continue as a going concern within one year after the date of the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 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 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.

Report on Summarized Comparative Information

We have previously audited Elizabeth Morse Genius Foundation's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 4, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

May 3, 2022

Elizabeth Morse Genius Foundation

Statement of Financial Position December 31, 2021 (with comparative amounts at December 31, 2020)

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 997,385	\$ 583,890
Accrued interest and dividends	113,109	100,246
Prepaid federal excise tax	-	14,366
Investments	100,251,112	91,794,612
Deposits and other assets	86,107	49,270
Restricted Assets		
Investments	12,317,039	12,317,039
Real estate	1,816,000	1,816,000
Other assets	1,757	1,757
Property, buildings, furniture and equipment, net	29,975,013	30,135,584
	\$ 145,557,522	\$ 136,812,764
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 103,977	\$ 128,030
Federal excise tax payable	9,000	-
Deferred federal excise tax	384,200	298,400
Security deposits held	99,118	99,128
Total Liabilities	596,295	525,558
Net Assets		
Without donor restrictions	125,804,948	119,018,311
With donor restrictions	19,156,279	17,268,895
Total Net Assets	144,961,227	136,287,206
	\$ 145,557,522	\$ 136,812,764

See notes to financial statements

Elizabeth Morse Genius Foundation

Statement of Activities Year Ended December 31, 2021 (with summarized totals for the year ended December 31, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
INCOME				
Investment Return				
Interest and dividends	\$ 1,680,479	\$ 284,994	\$ 1,965,473	\$ 1,733,748
Realized gain on investments	5,186,002	879,498	6,065,500	399,798
Unrealized gain on investments	5,364,862	809,746	6,174,608	12,140,097
Rental income	2,774,306	205,893	2,980,199	2,491,539
Direct investment expense - non real estate	(373,139)	(86,854)	(459,993)	(380,746)
Real estate expenses	(1,530,497)	(51,154)	(1,581,651)	(1,539,123)
Total Investment Return	<u>13,102,013</u>	<u>2,042,123</u>	<u>15,144,136</u>	<u>14,845,313</u>
Other Income				
Net loss on sale and disposal of property and equipment	(55,283)	-	(55,283)	-
Gain on sale of equipment	52,500	-	52,500	1,500
Miscellaneous	224,616	-	224,616	52,211
Total Other Income	<u>221,833</u>	<u>-</u>	<u>221,833</u>	<u>53,711</u>
Net assets released from restrictions	154,739	(154,739)	-	-
Total Income	<u>13,478,585</u>	<u>1,887,384</u>	<u>15,365,969</u>	<u>14,899,024</u>
EXPENSES				
Grants authorized	4,682,825	-	4,682,825	4,445,496
Program support, planning and development	870,211	-	870,211	807,778
Operations and governance	914,112	-	914,112	838,776
Federal excise tax expense	224,800	-	224,800	217,534
Total Expenses	<u>6,691,948</u>	<u>-</u>	<u>6,691,948</u>	<u>6,309,584</u>
Change in Net Assets	6,786,637	1,887,384	8,674,021	8,589,440
NET ASSETS				
Beginning of year	<u>119,018,311</u>	<u>17,268,895</u>	<u>136,287,206</u>	<u>127,697,766</u>
End of year	<u>\$ 125,804,948</u>	<u>\$ 19,156,279</u>	<u>\$ 144,961,227</u>	<u>\$ 136,287,206</u>

See notes to financial statements

Elizabeth Morse Genius Foundation

Statement of Cash Flows Year Ended December 31, 2021 (with comparative amounts for the year ended December 31, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,674,021	\$ 8,589,440
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	479,337	491,577
Realized gain on sale of investments	(6,065,500)	(399,798)
Gain on sale of equipment	(52,500)	(1,500)
Net loss on sale and disposal of property and equipment	55,283	-
Unrealized gain on investments	(6,174,608)	(12,140,097)
Deferred federal excise tax	85,800	171,900
Changes in operating assets and liabilities		
Accrued interest and dividends receivable	(12,863)	52,816
Prepaid federal excise tax	14,366	(4,105)
Deposits and other assets	(36,837)	(37,946)
Accounts payable and accrued expenses	(24,053)	8,862
Federal excise tax payable	9,000	-
Net Cash from Operating Activities	(3,048,554)	(3,268,851)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	26,405,353	33,039,074
Purchase of investments	(22,621,745)	(29,804,037)
Proceeds from sale of equipment	52,500	1,500
Purchase of property and equipment	(374,049)	(63,821)
Security deposits received (returned)	(10)	3,839
Net Cash from Investing Activities	3,462,049	3,176,555
Net Change in Cash and Cash Equivalents	413,495	(92,296)
CASH AND CASH EQUIVALENTS		
Beginning of year	583,890	676,186
End of year	\$ 997,385	\$ 583,890
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for Federal excise taxes	\$ 115,634	\$ 70,000

See notes to financial statements

Elizabeth Morse Genius Foundation

Notes to Financial Statements
December 31, 2021

1. Organization

The Elizabeth Morse Genius Foundation (the “Foundation”) was organized exclusively for charitable, literary, educational and scientific purposes. It accomplishes these purposes primarily through charitable contributions to qualified organizations.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Accordingly, actual results could differ for those estimates.

Prior Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Foundation’s financial statements as of and for the year ended December 31, 2020, from which the summarized information was derived.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts. The Foundation considers all highly liquid debt instruments available for current use with a maturity date of three months or less at the date of purchase to be cash equivalents.

Fair Value Measurements

The Foundation follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The Foundation follows U.S. GAAP guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value (“NAV”) per share as a practical expedient.

Elizabeth Morse Genius Foundation

Notes to Financial Statements
December 31, 2021

2. Summary of Significant Accounting Policies (*continued*)

Investment and Income Recognition

Investments, other than temporary cash investments, are carried at fair value. Temporary cash investments are valued at cost plus accrued interest. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Investment Expense

Direct investment expense on the statement of activities consists of fees paid directly to the Foundation's investment advisor as well as an allocation of direct internal costs that the Foundation incurs in the generation of investment return. These costs include salaries and benefits of the officers and staff responsible for the development and execution of the Foundation's investment strategy as well as allocable costs associated with the internal investment management, supervising, selecting and monitoring of external investment management firms.

Investment Risks and Uncertainties

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as limited partnerships, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

Property, Buildings, Furniture and Equipment

The Foundation follows the practice of capitalizing all expenditures for property, buildings, furniture and equipment with a cost in excess of \$5,000. Land, buildings and improvements, furniture and equipment are carried at cost or fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the assets which range from 5 to 39 years.

Elizabeth Morse Genius Foundation

Notes to Financial Statements
December 31, 2021

2. Summary of Significant Accounting Policies (*continued*)

Long-Lived Assets

The Foundation evaluates its long-lived assets, which consist primarily of its property, buildings, furniture and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset exceeds the sum of its expected future cash flows, on an undiscounted basis. If such review indicates that an asset is impaired, the carrying amount would be written down to fair value. Management has determined that no impairment adjustment was required for the years ended December 31, 2021 and 2020.

Grants Payable

The liability for grants and project appropriations payable is recognized when specific grants are authorized by the Board of Trustees and the recipients have been notified.

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Without donor restrictions – consist of resources available for the general support of the Foundation's operations. Net assets without donor restrictions may be used at the discretion of Foundation's management and Board of Trustees.

With donor restrictions – represent amounts restricted by donors temporarily to be used for specific activities or at some future date, or which require the Foundation to maintain permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue Recognition

The Foundation recognizes rental income in accordance with the terms of the respective leases. The terms of the lease agreements range from annual to 10 year agreements.

Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the appropriate programs and supporting services benefited. Refer to note 6 for the classification of expenses by their functional allocation and policy for allocating such expenses.

Elizabeth Morse Genius Foundation

Notes to Financial Statements
December 31, 2021

2. Summary of Significant Accounting Policies *(continued)*

Accounting for Uncertainty in Income Taxes

The Foundation recognizes the effect of income tax positions when they are more likely than not to be sustained. Management is not aware of any violations of its tax status as an organization exempt from income tax, nor any exposure to unrelated business income tax that would require disclosure and/or recognition. The Foundation is no longer subject to examination by the applicable taxing jurisdictions for periods prior to December 31, 2018.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is May 3, 2022.

3. Concentration of Credit Risk

The Foundation's cash, cash equivalents and investments are potentially exposed to concentrations of credit risk. The Foundation invests its cash and equivalents with quality financial institutions. The Foundation invests in equities, mutual funds, corporate bonds and limited partnerships. The Foundation routinely assesses the diversification and financial strength of its cash and investment portfolio. As a consequence, concentrations of credit risk are limited.

4. Fair Value Measurements

The following are major categories of investments measured at fair value on a recurring basis at December 31, grouped by the fair value hierarchy, for those investments subject to categorization within such hierarchy:

Description	2021			
	Level 1	Level 2	Investments Measured at Net Asset Value (*)	Total
Equities				
Large cap	\$ 11,952,495	\$ -	\$ -	\$ 11,952,495
Mid cap	8,556,579	-	-	8,556,579
Small cap	7,740,639	-	-	7,740,639
International developed	8,923,247	-	-	8,923,247
Emerging markets	5,353,061	-	-	5,353,061
Mutual Funds				
Large cap	16,935,552	-	-	16,935,552
Mid cap	4,550,857	-	-	4,550,857
International developed	8,509,930	-	-	8,509,930
Emerging markets	2,266,479	-	-	2,266,479
Corporate Bonds				
Investment grade	-	9,857,310	-	9,857,310
International developed	-	1,621,833	-	1,621,833
Hedge Funds				
Fund of funds	-	-	6,359,997	6,359,997
Multi-strategy	-	-	16,481,810	16,481,810
Total Investments at Fair Value	<u>\$ 74,788,839</u>	<u>\$ 11,479,143</u>	<u>\$ 22,841,807</u>	109,109,789
Cash held for investment, at cost				3,458,362
Total Investments				<u>\$ 112,568,151</u>

Elizabeth Morse Genius Foundation

Notes to Financial Statements December 31, 2021

4. Fair Value Measurements *(continued)*

Description	2020			Total
	Level 1	Level 2	Investments Measured at Net Asset Value (*)	
Equities				
Large cap	\$ 10,192,247	\$ -	\$ -	\$ 10,192,247
Mid cap	7,161,865	-	-	7,161,865
Small cap	5,640,476	-	-	5,640,476
International developed	8,036,731	-	-	8,036,731
Emerging markets	6,093,429	-	-	6,093,429
Mutual Funds				
Large cap	17,987,062	-	-	17,987,062
Mid cap	5,298,572	-	-	5,298,572
International developed	7,643,703	-	-	7,643,703
Corporate Bonds				
Investment grade	-	9,553,071	-	9,553,071
International developed	-	1,442,005	-	1,442,005
Global high yield	-	856,381	-	856,381
Hedge Funds				
Fund of funds	-	-	6,489,720	6,489,720
Multi-strategy	-	-	15,791,940	15,791,940
Total Investments at Fair Value	<u>\$ 68,054,085</u>	<u>\$ 11,851,457</u>	<u>\$ 22,281,660</u>	102,187,202
Cash held for investment, at cost				1,924,449
Total Investments				<u>\$ 104,111,651</u>

(*) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy.

Information regarding alternative investments valued at NAV using the practical expedient at December 31, 2021 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds				
Fund of funds (see "a" below)	\$ 6,359,997	\$ -	Quarterly	45 days
Multi-strategy (see "b" below)	<u>16,481,810</u>	-	Quarterly	45 - 90 days
Total	<u>\$ 22,841,807</u>	<u>\$ -</u>		

- a. This category includes investments in hedge funds that are fund of funds and whose objective is to seek absolute returns with low to moderate volatility and with minimal correlation to the global equity and fixed income markets while preserving capital.
- b. This category includes hedge fund investments with objectives for long-term returns, to achieve capital appreciation and deliver strong risk-adjusted returns, to invest in a diversified and actively managed portfolio, and to achieve attractive risk adjusted returns of the medium to long term. These funds invest in daily cash balances, long and short term investments in global equity securities, residential mortgage backed securities, loans and asset-backed securities.

At December 31, 2021 and 2020 one investment represented 14% and 16% of the Foundation's total investment portfolio.

Elizabeth Morse Genius Foundation

Notes to Financial Statements
December 31, 2021

5. Liquidity and Availability of Financial Assets

The following reflects the Foundation's financial assets and resources without donor or other restrictions available as of December 31, 2021 and 2020, to meet cash needs for general expenditures within one year of the date of the statement of financial position:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 997,385	\$ 583,890
Accrued interest and dividends	113,109	100,246
Investments	<u>100,251,112</u>	<u>91,794,612</u>
Total Financial Assets Available Within One Year	<u>\$ 101,361,606</u>	<u>\$ 92,478,748</u>

The Foundation's working capital and cash flows are driven by its investment portfolio and investment return. As part of the Foundation's liquidity management strategy, the Foundation seeks to maintain adequate liquidity to meet its obligations, including planned expenditures as approved by the Board. The Foundation structures its financial assets to be available as its grant payments and other general liabilities come due. The Foundation will inform their investment advisor of any anticipated need for liquidity as such need becomes known, and the investment advisor will then withdraw the funds needed from the investment portfolio. These withdrawals will normally coincide with the Foundation's grant disbursement cycle.

The withdrawals are adjusted based on the grants to be disbursed and other factors affecting available cash, including investment income and general operating expenses. None of the Foundation's financial assets noted above are subject to donor or contractual restrictions that make them unavailable for general expenditure within one year of the date of the statement of financial position.

6. Expenses by Functional and Natural Classification

Expenses are presented by functional classification in alignment with the overall mission of the Foundation. Expenses are classified based on the direct impact to the Foundation. Therefore, certain expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include insurance, salaries and payroll taxes based on employee time and effort.

Elizabeth Morse Genius Foundation

Notes to Financial Statements
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6. Expenses by Functional and Natural Classification *(continued)*

	2021			Total
	Grants and Programs	Operations and Governance	Federal Excise Tax Expense	
Grants	\$ 4,682,825	\$ -	\$ -	\$ 4,682,825
Salaries	479,995	347,582	-	827,577
Payroll taxes and employee benefits	207,049	69,016	-	276,065
Legal	-	60,872	-	60,872
Accounting	-	40,205	-	40,205
Other professional services	-	19,907	-	19,907
Real estate taxes	-	30,333	-	30,333
Depreciation	-	70,711	-	70,711
Insurance	16,771	43,127	-	59,898
Repairs and maintenance	147,411	141,631	-	289,042
Utilities	9,756	7,665	-	17,421
Miscellaneous office expenses	9,229	83,063	-	92,292
Current federal excise tax	-	-	139,000	139,000
Deferred federal excise tax	-	-	85,800	85,800
Total	\$ 5,553,036	\$ 914,112	\$ 224,800	\$ 6,691,948

	2020			Total
	Grants and Programs	Operations and Governance	Federal Excise Tax Expense	
Grants	\$ 4,445,496	\$ -	\$ -	\$ 4,445,496
Salaries	449,173	325,264	-	774,437
Payroll taxes and employee benefits	208,612	69,537	-	278,149
Legal	-	45,626	-	45,626
Accounting	-	40,857	-	40,857
Other professional services	-	13,237	-	13,237
Real estate taxes	-	45,178	-	45,178
Depreciation	-	82,040	-	82,040
Insurance	13,188	33,912	-	47,100
Repairs and maintenance	116,384	111,820	-	228,204
Utilities	13,694	10,759	-	24,453
Miscellaneous office expenses	6,727	60,546	-	67,273
Current federal excise tax	-	-	45,634	45,634
Deferred federal excise tax	-	-	171,900	171,900
Total	\$ 5,253,274	\$ 838,776	\$ 217,534	\$ 6,309,584

Elizabeth Morse Genius Foundation

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7. Property, Buildings, Furniture and Equipment

Property, buildings, furniture and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Investment Properties		
Land	\$ 7,485,831	\$ 7,485,831
Buildings and improvements	<u>15,448,846</u>	<u>15,221,974</u>
Total	<u>22,934,677</u>	<u>22,707,805</u>
Program Properties		
Land	14,698,165	14,698,165
Buildings and improvements	<u>1,813,129</u>	<u>1,815,368</u>
Total	<u>16,511,294</u>	<u>16,513,533</u>
Furniture and equipment	<u>417,988</u>	<u>471,455</u>
	39,863,959	39,692,793
Less accumulated depreciation	<u>8,072,946</u>	<u>7,741,209</u>
	<u>\$ 31,791,013</u>	<u>\$ 31,951,584</u>

During 2021, the Foundation removed from its accounts and records assets with a remaining basis of \$55,283, resulting in losses on sale and disposal. During 2021 and 2020, the Foundation sold fully depreciated assets resulting in a gain on sale of \$52,500 and \$1,500. Depreciation expense for 2021 and 2020 was \$479,337 and \$491,577. During 2021 and 2020, depreciation expense of \$408,628 and \$409,537 was allocated to real estate expense.

8. Rental Income

Minimum future rental income under non-cancelable operating leases with remaining terms in excess of one year, for fiscal years ending December 31, are payable to the Foundation as follows:

2022	\$ 2,774,599
2023	2,331,112
2024	1,553,414
2025	1,026,907
2026	734,232
2027 and thereafter	<u>206,380</u>
	<u>\$ 8,626,644</u>

9. Federal Excise Tax

The Foundation is exempt from Federal income taxes under Section 501(c)(3) and 509(a) of the Internal Revenue Code (the "Code") and has been further classified as a "private foundation". The Foundation is subject to an excise tax on its net investment income.

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9. Federal Excise Tax (*continued*)

The Foundation is subject to excise tax of 1.39% on its net investment income, as defined, for tax purposes.

Deferred taxes principally arise from the differences between the cost and fair value of investments. The Foundation provides for deferred federal excise tax on the net unrealized appreciation of the fair value of investments at the rate applicable for the following year.

10. Related Party Transactions

At December 31, 2021 and 2020, the Foundation and the Charles Hosmer Morse Foundation, Inc., although not affiliated, shared three common Trustees. During the years ended December 31, 2021 and 2020, the Board of Trustees of the Foundation approved grants to be paid to the Charles Hosmer Morse Foundation, Inc. in the amount of \$2,600,000 and \$2,800,000.

A trustee of the Foundation is a shareholder of a law firm that renders legal services to the Foundation. The firm received fees for legal services of \$79,090 in 2021 and \$82,309 in 2020. In addition, the law firm leases office space from the Foundation. The Foundation received rental income from the firm in the amount of \$688,096 in 2021 and \$675,368 in 2020.

11. Net Assets with Donor Restrictions / Designated for Investments

Net assets with donor restrictions at December 31, 2021 and 2020 include gifts which have been restricted by the donor in perpetuity, the income of which is expendable to support:

Morse Museum of American Art	\$ 14,034,796
Rollins College for an annual faculty grant	<u>100,000</u>
Total	<u>\$ 14,134,796</u>

Interpretation of Relevant Law

In June 2011, The State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"). The Foundation has interpreted FUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary.

Elizabeth Morse Genius Foundation

Notes to Financial Statements
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11. Net Assets with Donor Restrictions / Designated for Investments *(continued)*

Interpretation of Relevant Law (continued)

As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is restricted until appropriated for expenditure by the board in a manner consistent with the standard of prudence prescribed by FUPMIFA.

In accordance with FUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Return Objective and Risk Parameters

The Foundation follows investment and spending policies for endowment assets that are designed to preserve the principal of the funds and maintain a prudent balance between current income and future growth, while maintaining a suitable level of asset valuation volatility. The Foundation's investment objective is to outperform policy indexes representative of the various asset classes held within its portfolio. To meet its investment objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The risk tolerance of the Foundation is moderate; results are measured and manager performance is assessed quarterly.

The Foundation follows the policy of pooling its invested funds. Investment income and appreciation (depreciation) are allocated annually based upon a sharing percentage adjusted for additions to and withdrawals from the pooled fund. The endowment fund is allocated a percentage of the total pooled funds according to the cost basis of its interest at year end. Net rental income earned on the endowment fund is the actual net income earned on real estate donated to the Foundation as part of the endowment.

Strategies Employed for Achieving Objective

Endowment assets are invested in a manner that is prudent and in accordance with the Foundation's investment policy of maintaining a prudent balance between current income and future growth. This is to be achieved by assuming a moderate level of risk.

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11. Net Assets with Donor Restrictions / Designated for Investments *(continued)*

Spending Policy

Management follows an investment policy that establishes the maximum percentage of endowment earnings that can be used to support donor specified programs/projects. The Foundation's policy is to spend net realized investment and rental income earned on its net assets with donor restrictions.

The following is a reconciliation of the activity in endowment funds.

	<u>2021</u>	<u>2020</u>
Balance at January 1,	\$ 17,268,895	\$ 15,184,104
Net realized investment income	1,077,638	254,367
Net rental income	154,739	110,250
Amount appropriated for expenditure	(154,739)	(110,250)
Unrealized gain on investments	809,746	1,830,424
Balance at December 31,	<u>\$ 19,156,279</u>	<u>\$ 17,268,895</u>
Original gift value is comprised of the following:		
Endowed investments	\$ 12,317,039	\$ 12,317,039
Real estate	1,816,000	1,816,000
Other	1,757	1,757
	<u>\$ 14,134,796</u>	<u>\$ 14,134,796</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted FUPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. Should the value of the endowment fall below the corpus of the gift, the shortfall will be offset with available funds until such time that the value exceeds the corpus.

In 2021 and 2020, net assets released from restrictions to support the Morse Museum of American Art and Rollins College amounted to \$154,739 and \$110,250.

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12. Pension Plan

The Foundation sponsors a 401(k) pension plan for the benefit of its full time employees. Under the plan predetermined contributions (3% safe harbor, 4% profit sharing and 3% matching) of the annual salary are made to participants' accounts. The Foundation's plan expense was \$102,749 and \$102,317 for 2021 and 2020.

13. COVID-19

The COVID-19 pandemic has resulted in substantial volatility in the global financial markets. Because of the response in changing market conditions, the amount of losses, if any, cannot be determined.

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