

Audited Financial Statements
Seedling Foundation dba Seedling
For the Fiscal Year Ended July 31, 2021
With Independent Auditor's Report

Seedling Foundation dba Seedling

Audited Financial Statements

For the Fiscal Year Ended July 31, 2021

Contents

Independent Auditor's Report	1-2
Audited Financial Statements:	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses.....	6
Statement of Cash Flows	7
Notes to Financial Statements	8-19

Independent Auditor's Report

To the Board of Directors of
Seedling Foundation dba Seedling
Austin, Texas

Opinion

We have audited the accompanying financial statements of Seedling Foundation dba Seedling (“Seedling”) (a nonprofit organization), which comprise the statement of financial position as of July 31, 2021, and the related statements of activities, functional expenses, and cash flows for the fiscal 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 Seedling Foundation dba Seedling as of July 31, 2021, and the changes in its net assets and its cash flows for the fiscal 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Seedling 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 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 Seedling's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

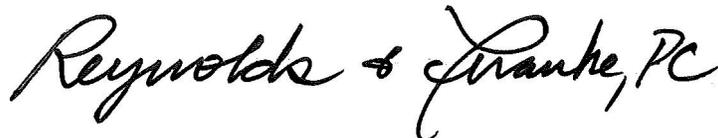
Auditor's Responsibilities for the Audit of the Financial Statements

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 Seedling'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 Seedling'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.

A handwritten signature in black ink that reads "Reynolds & Franke, PC". The signature is written in a cursive, flowing style.

Austin, Texas
November 12, 2021

Audited Financial Statements

Seedling Foundation dba Seedling

Statement of Financial Position

July 31, 2021

Assets

Current Assets:

Cash and cash equivalents	\$ 612,615
Accounts receivable	5,548
Pledges receivable with donor restrictions	7,000
Prepaid expenses	16,932
Total current assets	<u>642,095</u>
Cash and cash equivalents with donor restrictions	210,659
Investments - endowment with designations	1,440,195
Investments - other	384,000
Property and equipment, net	<u>3,438</u>
Total assets	<u>\$ 2,680,387</u>

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$ 10,284
Accrued expenses	3,356
Scholarships payable, current portion	55,532
Total current liabilities	<u>69,172</u>
Scholarships payable, less current portion	<u>85,000</u>
Total liabilities	<u>154,172</u>

Net Assets:

Without donor restrictions - undesignated	868,361
Without donor restrictions - designated for endowment	1,440,195
With donor restrictions	217,659
Total net assets	<u>2,526,215</u>
Total liabilities and net assets	<u>\$ 2,680,387</u>

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

Seedling Foundation dba Seedling

Statement of Activities

For the Fiscal Year Ended July 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues:			
School district grants	\$ 520,000	\$ -	\$ 520,000
Contributions	373,922	128,644	502,566
City and county grants	80,000	-	80,000
In-kind contributions	19,057	-	19,057
Federal grant	260	-	260
Forgiveness of debt income	146,200	-	146,200
Investment income	344,333	-	344,333
Other income	50	-	50
Total support and revenues	<u>1,483,822</u>	<u>128,644</u>	<u>1,612,466</u>
Special Events:			
Special events revenues	222,758	-	222,758
Special events expenses	(54,389)	-	(54,389)
Special events, net	<u>168,369</u>	<u>-</u>	<u>168,369</u>
Net assets released from donor restrictions	<u>154,269</u>	<u>(154,269)</u>	<u>-</u>
Total public support, revenues, and reclassifications	<u>1,806,460</u>	<u>(25,625)</u>	<u>1,780,835</u>
Expenses:			
Program services	894,955	-	894,955
Fundraising	185,078	-	185,078
General and administrative	84,985	-	84,985
Total expenses	<u>1,165,018</u>	<u>-</u>	<u>1,165,018</u>
Total change in net assets	<u>641,442</u>	<u>(25,625)</u>	<u>615,817</u>
Net assets, beginning of the fiscal year			
as previously reported	1,620,428	243,284	1,863,712
Prior period adjustment	46,686	-	46,686
Net assets, beginning of the fiscal year, restated	<u>1,667,114</u>	<u>243,284</u>	<u>1,910,398</u>
Net assets, end of the fiscal year	<u>\$ 2,308,556</u>	<u>\$ 217,659</u>	<u>\$ 2,526,215</u>

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

Seedling Foundation dba Seedling

Statement of Functional Expenses

For the Fiscal Year Ended July 31, 2021

	Scholarships	Outreach	Mentor Appreciation	Mentoring	Total Program Services	Fundraising	General and Administrative	Total
Salaries and wages	\$ -	\$ 42,766	\$ 3,055	\$ 557,478	\$ 603,299	\$ 123,467	\$ 42,790	\$ 769,556
Payroll taxes	-	3,512	273	48,591	52,376	10,828	3,475	66,679
Employee benefits	-	2,389	169	29,586	32,144	6,884	3,225	42,253
Professional fees	-	3,502	5,763	34,898	44,163	3,236	12,890	60,289
Grants and scholarships	47,000	-	-	-	47,000	-	-	47,000
Facility and equipment	-	39	4	27,132	27,175	9,215	6,118	42,508
Technology subscriptions	-	1,128	-	27,663	28,791	6,792	1,050	36,633
Other expenses	-	18,420	-	2,873	21,293	6,206	2,301	29,800
Consultants and contractors	-	715	-	16,415	17,130	10,010	320	27,460
Operational expenses	-	105	1,067	6,782	7,954	8,056	1,797	17,807
Stipends	-	-	-	10,550	10,550	-	-	10,550
Bad debt expense	-	-	-	-	-	-	10,000	10,000
Travel and meetings	-	644	-	2,436	3,080	384	300	3,764
Depreciation	-	-	-	-	-	-	719	719
Total expenses	\$ 47,000	\$ 73,220	\$ 10,331	\$ 764,404	\$ 894,955	\$ 185,078	\$ 84,985	\$ 1,165,018
Percentage of total expenses	4%	6%	1%	66%	77%	16%	7%	100%

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

Seedling Foundation dba Seedling

Statement of Cash Flows

For the Fiscal Year Ended July 31, 2021

Cash flows from operating activities	
Change in net assets	\$ 615,817
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Depreciation	719
Forgiveness of debt income	(146,200)
Unrealized gains	(333,299)
(Increase) decrease in operating assets:	
Accounts receivable	20,585
Pledges receivable	(7,000)
Prepaid expenses	1,204
Increase (decrease) in operating liabilities:	
Accounts payable	8,660
Scholarship payable	20,304
Accrued expenses	(3,723)
Net cash provided by operating activities	<u>177,067</u>
Cash flows from investing activities:	
Purchases of investments - endowment with designations	(262,240)
Proceeds from the sales of investments - endowment with designations	246,966
Net cash used in investing activities	<u>(15,274)</u>
Net change in cash and cash equivalents	161,793
Cash and cash equivalents, beginning of the fiscal year	<u>661,481</u>
Cash and cash equivalents, end of the fiscal year	<u>\$ 823,274</u>
Cash and cash equivalents consist of:	
Cash and cash equivalents	\$ 612,615
Cash and cash equivalents with donor restrictions	210,659
Total cash and cash equivalents	<u>\$ 823,274</u>

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

Seedling Foundation dba Seedling

Notes to Financial Statements

For the Fiscal Year Ended July 31, 2021

Note 1 – Summary of Significant Accounting Policies

This summary of significant accounting policies of Seedling Foundation dba Seedling (hereafter referred to as “Seedling”) is presented to assist in understanding Seedling’s financial statements. The financial statements and notes are representations of Seedling’s management who is responsible for their integrity and objectivity. These accounting policies and principles conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Activities

Seedling’s mission is to mitigate the impact of parental incarceration on children in Central Texas through school-based mentoring. Seedling has a long history of providing support to Austin Area public schools. In 2005, concerned Austin ISD school principals requested help for a growing population in their schools of children who had an incarcerated parent. In response, the Seedling Mentor Program was launched. The vision was to provide support, encouragement, information, and a nonjudgmental adult role model for children separated from one or both of their parents as a result of a prison sentence.

From the beginning, Seedling set the standard very high: The Seedling Mentor Program would be a research informed mentor program, serving only children who have an incarcerated parent, doing so only in a school setting, and providing the kind of support volunteer mentors would need to cultivate impactful, long term relationships.

Due to the Pandemic and mentors not able to visit campuses, Seedling saw a decrease in the number of children served during the 2020-21 school year. A total of 518 children were considered active in the mentoring program in 2020-21 with 369 children receiving services through virtual mentoring. 52% of these children were in elementary school, 33% in middle school and 15% were in high school. 73% of the students attended schools in Austin ISD. In total, Seedling mentors had a presence in 119 schools in Central Texas. 95% of the children mentored were considered financially disadvantaged, and 94% of the children were Hispanic, African American or multi race.

During the 2020-21 school year, Seedling developed and introduced virtual mentoring to its match relationships through a platform developed specifically for Seedling. In addition, Seedling provided summer mentoring for the first time in the organization’s history utilizing the virtual mentoring. Seedling is also expanding its services for a growing high school population by providing community-based referrals, scholarship information, and job information to mentees.

For Seedling mentees, the average length of participation in the program was two years and eight months. 72% of Seedling mentees were still participating in their original match relationship with the mentor. Seedling mentor-mentee match relationships far exceeded the national average of 12 months for a match relationship.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Nature of Activities (continued)

Seedling participates in an independent program evaluation to measure its program outcomes. The evaluation measures student persistence, personal development skills, school engagement, attendance, and disciplinary referrals. These outcomes are indicators of whether the mentoring program has mitigated the impacts of the adverse childhood experience of parental incarceration.

Seedling's most recent independent evaluation found that a significant majority of mentees reported positive outcomes in the various measures. 87% of Seedling mentees achieved positive outcomes in three of the five outcome areas. 88% of Seedling mentees who were in the program for 12 to 24 months achieved positive outcomes in at least three of the areas. Seedling also compares the results for its mentees to the results of a similar population group of students who do not have an incarcerated parent. Seedling mentees perform at a very similar level in all areas to the comparison group.

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. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Financial statement presentation follows the recommendations of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958). Accordingly, net assets of Seedling and changes therein are classified and reported as follows:

Net assets without donor restrictions – These types of net assets are not subject to donor-imposed stipulations. This also includes net assets with Board designations for specific purposes, since these designations may be reversed by the Board of Directors at any time in the future.

Net assets with donor restrictions – These types of net assets are subject to donor-imposed stipulations, which limit their use by Seedling, either permanently or temporarily, to a specific purpose and/or the passage of time. When a donor restriction expires, 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 donor restrictions.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Change in Accounting Principle

During the fiscal year ended July 31, 2021, Seedling adopted FASB Accounting Standards Update Number 2014-09, Revenue from Contracts with Customers (Topic 606), which provides new guidance to report useful information to users of financial statements about the nature, timing, and uncertainty of revenues from contracts with customers. There was no material impact on Seedling's results of operations or financial condition upon adoption of the new standard.

Cash and Cash Equivalents

Seedling considers all cash and other highly liquid investments with maturity of three months or less when purchased to be cash equivalents, unless designated for investment or endowment purposes.

Accounts Receivable

Seedling records accounts receivable on the accrual basis at the amount expected to be collected on outstanding balances. Seedling has not set up an allowance for uncollectible receivables as of July 31, 2021, because management estimates that the receivables are collectible, and write-offs are historically unusual and small.

Pledges Receivable

Pledges are recognized as revenues when the donor's commitment is received. Pledges are recognized at the estimated present value of the future net cash flows, net of allowances. Seedling has not set up an allowance for uncollectible pledges as of July 31, 2021, because management estimates that the pledges are collectible, and write-offs are historically unusual and small.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives. Any donated items are recorded at their estimated fair value. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the period. Maintenance and repairs are charged to expense as incurred, and significant renewals and betterments are capitalized. Seedling has a policy of only capitalizing depreciable assets purchased at or over \$1,000, expensing items falling below that amount. Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 7 years.

Investments

Seedling accounts for its investments in accordance with FASB ASC) 958-320, *Not-for-Profit Entities –Investments – Debt and Equity Securities*, and FASB ASC 958-325, *Not-for-Profit Entities –Investments – Other*. Under FASB ASC 958-320, Seedling is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair value is based on quoted market prices. Under FASB ASC 958-325, partnership interests and stocks in closely held companies are recorded at cost or fair value at the dates the investments are donated and are periodically revalued through the use of a third party. Changes in value are shown as unrealized gains or losses on the statement of activities. FASB ASC 958-325 allows the fair value of a cost method investment to be excluded from estimation if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value and Seedling does not estimate the fair value of financial instruments either because (1) it is not practicable to estimate fair value or (2) Seedling is exempt from estimating fair value. Additionally, Seedling reviews all its investments and makes a determination if any is considered impaired for reporting purposes.

Donated Materials, Facilities, and Services

Donated property and services are recorded at fair market value on the date of the donation as in-kind contributions if all qualifications for reporting have been met. For donated services those requirements include enhancing a nonfinancial asset or services that require specialized skills. The value of Seedling's volunteer services is not recorded in these financial statements because they do not meet the criteria. However, Seedling receives a significant amount of donated services from unpaid volunteers who assist in direct services, fund-raising, and special projects. During the 2020/2021 school year, Seedling estimated to have 2,000 volunteer hours which amounts to approximately \$57,080 based on the Independent Sector's estimate for volunteer hours of \$28.54 per hour.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Federal Income Taxes

Seedling is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent of unrelated business income, if any.

The most significant tax positions of Seedling are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business income tax (UBIT). Seedling has determined they didn't have any unrelated business income during the fiscal year ended July 31, 2021. All significant tax positions have been considered by management and it has determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

Seedling is required to file Form 990 (Return of Organization Exempt from Income Tax), which is subject to examination by the IRS generally up to three years from the later of the original due date or the date the tax return was filed. The Forms 990 for the fiscal years ended July 31, 2020, 2019, and 2018 are open to examination by the IRS as of July 31, 2021.

Grants, Contributions and Other Support

All grants and contributions are available for use without donor restriction unless specifically restricted by the donor. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related net assets with donor restrictions are reclassified to net assets without donor restrictions. This is reported in the statement of activities as net assets released from donor restrictions.

Allocation of Expenses

The expense information contained in the statement of activities is presented on a functional basis. Accordingly, certain expenses are allocated among the programs and supporting services benefited. Expenses which cannot be specifically identified have been allocated based on management's best estimate of usage. Salaries and wages, payroll taxes, and employee benefits are allocated based on estimated time spent by the employees for each function. Facility and equipment expenses are allocated based on the space and equipment usage. Depreciation is allocated on estimated usage in each function.

Date of Management's Review

These financial statements considered subsequent events through November 12, 2021, the date the financial statements were available to be issued.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

Seedling follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which relates to Seedling's financial assets and liabilities carried at fair value and Seedling's fair value disclosures related to financial assets and liabilities. FASB ASC 820 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as 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.

There are three levels of inputs to fair value measurements – Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs.

Seedling's financial instruments consist principally of cash and cash equivalents, cash and cash equivalents with donor restrictions, accounts receivable, pledges receivable with donor restrictions, investments – endowment with designations, investments – other, accounts payable, accrued expenses, and scholarships payable. Seedling believes all of the financial instruments' recorded values approximate current market values.

Note 2 – Prior Period Adjustment

During the fiscal year ended July 31, 2021, management discovered that the scholarships payable accounts were overstated on the financial statements as of July 31, 2020 due to not recording the amount of scholarships that had been forfeited. The net assets without donor restrictions balance as of July 31, 2020 has been restated to reflect a \$46,686 increase due to the overstated scholarships payable balance.

Note 3 – Pledges Receivable

The pledges receivable at July 31, 2021 were considered fully collectible. No allowances have been recorded in these financial statements. Due to immaterial amount of discount calculated as of July 31, 2021, no discounts to present value are reflected in the financial statements.

Pledges receivable comprised the following as of July 31, 2021:

Due within one year	<u>\$ 7,000</u>
Total pledges receivable	<u><u>\$ 7,000</u></u>

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 4 – Concentration of Credit Risk

Financial instruments which potentially subject Seedling to credit risk principally consist of cash and cash equivalents and investments. To minimize the risk, Seedling places its cash and cash equivalents and investments with high credit quality financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). Effective January 1, 2013, deposit insurance coverage by the FDIC changed to \$250,000 per bank per entity for all interest bearing and non-interest-bearing accounts. Securities are protected by the SIPC which currently protects brokerage accounts of each entity up to \$500,000 in securities. Additional coverage is frequently offered by brokerage accounts for amounts in excess of the \$500,000 SIPC limit. As of July 31, 2021, Seedling had no uninsured cash balances. Seedling has not experienced any losses in these accounts in the past.

Seedling is subject to market risk related to its investments. Seedling's investments are exposed to various risks, such as interest rate, market, and credit risks.

Note 5 – Risks and Uncertainties

On March 13, 2020, the Government of the United States declared the COVID-19 Pandemic ("COVID-19") as a national emergency. COVID-19 has caused a significant impact on the United States economy affecting various businesses in different ways. COVID-19 may have an impact on future conferences and events being held. Seedling does not have insurance to cover the loss of revenues from these events in the case of a Pandemic. However, no adjustments have been made to these financial statements as a result of this uncertainty. See Note 10 for disclosure of the PPP loan received in response to COVID-19.

Note 6 – Seedling Foundation Endowment

During the fiscal year ended July 31, 2015, Seedling created the Seedling Foundation Endowment (Endowment) to provide a long-term source of funds for the operations of Seedling. The Endowment consists of funds designated as net assets without donor restrictions and can be used to meet withdrawals authorized by the Board of Directors of Seedling. The Board of Directors of Seedling interpret the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original designation as of the date of the designated endowment funds absent explicit Board stipulations to the contrary. Net assets with donor restrictions are classified at the original value of gifts donated to the permanent endowment, plus the original value of subsequent gifts to the endowment. Also included are accumulations to the permanent endowment if directed by the donor gift instrument. The remaining portion of the donor restricted endowment fund is classified as net assets with donor restrictions until those funds are appropriated for expenditure by Seedling in a manner consistent with the standard of prudence prescribed by the UPMIFA. Currently, the Endowment includes only Board designated funds.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 6 – Seedling Foundation Endowment (continued)

Seedling has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under the endowment policy approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results as stated in Seedling’s policy while assuming a moderate level of investment risk. Seedling expects its endowment funds, over time, to provide a rate of return of approximately 300 basis points over the Consumer Price Index (“CPI”) over a rolling three-year period. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, Seedling relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Seedling targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

Seedling has a policy to withdraw funds from the portion without donor restrictions of the Endowment each year to support the operations of Seedling. The withdrawals can be lump sum or spread out over the fiscal year. In determining the total amount to withdraw from the Endowment in any given fiscal year, the Board of Directors incorporates the seven factors outlined in the UPMIFA. The Board of Directors approves the spending amount at the beginning of each fiscal year based on a documented analysis of all seven factors.

During the fiscal year ended July 31, 2016, Seedling designated an additional \$50,000 to be included as part of the Seedling Foundation Endowment. During the fiscal year ended July 31, 2021, Seedling’s Board designated an additional \$254,133 to the Seedling Foundation Endowment.

Changes in endowment net assets were as follows for the fiscal year ended July 31, 2021:

Endowment net assets at July 31, 2020	\$ 979,056
Deposits	254,133
Investment income, net of fees of \$19,104	207,006
Appropriated for expense	-
Endowment net assets at July 31, 2021	<u>\$ 1,440,195</u>

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 7 – Fair Value of Financial Instruments

Financial instruments are stated at fair market value and summarized as follows:

Description	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 10,876	\$ -	\$ 10,876	\$ -
Bonds	563,485	563,485	-	-
Equity securities	798,342	798,342	-	-
Exchange traded funds	51,368	51,368	-	-
REIT fund	16,124	16,124	-	-
Other investments	384,000	-	-	384,000
Total Investments	\$ 1,824,195	\$ 1,429,319	\$ 10,876	\$ 384,000

The following is a reconciliation of other investments:

Balance at July 31, 2020	\$ 249,600
Change in value	134,400
Balance at July 31, 2021	\$ 384,000

Other investments consist of 128,000 shares of A series stock in a privately owned company. The fair value of the shares was \$1.95 per share at the date of the contribution that occurred in a prior year. The original value per share was determined by the company's sale of its A series stock to raise capital. As of July 31, 2021, the value per share of the company's A series stock was revalued at \$3 per share based on the company's latest 409a valuation when issuing shares to the company's workers. Nothing has occurred to the company that would require a downward adjustment to Seedling's other investment's fair value as of July 31, 2021.

Note 8 – Property and Equipment

At July 31, 2021, property and equipment consisted of the following:

Furniture and equipment	\$ 12,543
Less: accumulated depreciation	(9,105)
Property and equipment, net	\$ 3,438

Total depreciation expense was \$719 for the fiscal year ended July 31, 2021.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 9 – Scholarships Payable

Scholarships payable are the amounts of scholarships that Seedling has committed to give to students upon their graduation from high school and acceptance to a facility of higher learning. Seedling recognizes the scholarships expense in the fiscal year the students are notified of the awards and recognizes the scholarships as an unconditional promise to give since the likelihood of the students not graduating is believed to be remote. No discount or allowance has been recorded in the amounts below as the amounts, if recorded, would be considered immaterial to the financial statements.

Seedling has segregated the cash for future scholarship payments in a separate cash account.

The following is a summary of the future payments of scholarships payable as of July 31, 2021:

<u>Fiscal Year Ending July 31,</u>	
2022	\$ 55,532
2023	50,000
2024	20,000
2025	15,000
Total scholarships payable	<u>\$ 140,532</u>

Note 10 – Note Payable

In April 2020, Seedling was granted a note from American Bank of Commerce in the aggregate amount of \$146,200, pursuant to the Paycheck Protection Program (“PPP”) under the Coronavirus Aid, Relief and Economic Security (“CARES”) Act, which was enacted on March 27, 2020. The note was dated April 11, 2020 and matures on April 11, 2022. It bears interest at a rate of 1% per annum and monthly payments of \$8,277 were due starting on November 11, 2020. However, payments were automatically deferred to either: (1) the date that the SBA remits the borrowers forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower’s loan forgiveness coverage period. Funds from the loan were only to be used for payroll costs, rent, utilities, and interest on other debt obligations incurred before February 2020. Seedling used the entire advance amount for qualifying expenses and accounted for it under FASB ASC 470 as debt. Under the terms of the PPP program, certain amounts of the note would be forgiven if they were used for qualifying expenses as described in the CARES Act and the Paycheck Protection Flexibility Act, which was enacted on June 5, 2020 and modified certain provisions of the CARES Act. The loan balance of \$146,200 was fully forgiven by the Small Business Administration (SBA) on November 2, 2020 and is recognized as forgiveness of debt income on the statement of activities.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 11 – Lease Commitments

Seedling entered into a new lease for office space in Austin, Texas beginning August 2015. Base rent escalates from an initial rate of \$2,119 per month to \$2,578 per month at the end of the term, July 2022. Additional rent might be payable over the term for actual building operating expenses over a certain dollar threshold. Seedling also entered into an operating lease agreement for office equipment in June 2016. The lease expired on June 2021 and was not renewed.

The total future minimum lease payments under operating leases as of July 31, 2021 are as follows:

For the Fiscal Year Ending July 31,

2022	\$ 30,941
2023	<u>2,578</u>
	<u>\$ 33,519</u>

Rental expense for these two operating leases totaled \$39,155 for the fiscal year ended July 31, 2021.

Note 12 – Net Assets With Donor Restrictions

Seedling had the following activity in net assets with donor restrictions during the fiscal year ended July 31, 2021:

	Beginning Balance	Additions	Releases	Ending Balance
Specified Purpose:				
Scholarships	\$ 180,557	\$ 26,644	\$ (8,542)	\$ 198,659
Pledges	25,585	2,000	(20,585)	7,000
Mentoring program	30,000	90,000	(115,000)	5,000
COVID-19 assistance	7,142	-	(7,142)	-
Technology support	-	10,000	(3,000)	7,000
Total	<u>\$ 243,284</u>	<u>\$ 128,644</u>	<u>\$ (154,269)</u>	<u>\$ 217,659</u>

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Year Ended July 31, 2021

Note 13 – Net Assets Without Donor Restrictions - Designated

Seedling had the following activity in net assets without donor restrictions - designated during the fiscal year ended July 31, 2021:

	Beginning Balance	Additions	Releases	Ending Balance
Board Designated:				
Endowment	\$ 979,056	\$ 480,243	\$ (19,104)	\$ 1,440,195
Total	<u>\$ 979,056</u>	<u>\$ 480,243</u>	<u>\$ (19,104)</u>	<u>\$ 1,440,195</u>

Note 14 – Liquidity and Availability of Financial Assets

Seedling's working capital and cash flows are related to timing of receipts of project income, grants, and donations.

The following reflects Seedling's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts available include donor-restricted amounts that are available for expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Board of Seedling approves that action.

Cash and cash equivalents	\$ 612,615
Cash and cash equivalents with donor restrictions	210,659
Accounts receivable	5,548
Pledges receivable with donor restrictions	<u>7,000</u>
Total financial assets	835,822
With donor restrictions	<u>(217,659)</u>
Financial Assets Available to Meet Cash Needs For Expenditures Within One Year	<u>\$ 618,163</u>

Note 15 – Subsequent Event

In August 2021, Seedling entered into a new annual service agreement with Austin Independent School District (AISD) in the amount of \$495,250. The agreement can be renewed by AISD for 4 additional one-year periods.