

THE ELM FOUNDATION
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2018

CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

Mercer & Associates, PC

a CPA firm

201 Williams Avenue, Suite 280
Huntsville, Alabama 35801
(256) 536 - 4318
Fax (256) 533 - 7193

Jerry Mercer, CPA, owner
Lisa Eaton, CPA
Misty Whiting, CPA
Carol Crews, CPA
Jordan Gibbs, CPA

Members
Alabama Society of C.P.A.s
American Institute C.P.A.s

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The ELM Foundation
Huntsville, Alabama

We have audited the accompanying financial statements of The ELM Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The ELM Foundation as of December 31, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Mercer & Associates, PC

March 31, 2019

**THE ELM FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

ASSETS

Current Assets	
Cash and cash equivalents	\$ 208,544
Stock held as investment	44,300
Total Current Assets	<u>252,844</u>
 Other Assets	
Deposits	1,199
Total Other Assets	<u>1,199</u>
 Fixed Assets	
Land	15,000
Building	67,863
Furniture and equipment	7,520
Less: accumulated depreciation	(18,611)
Total Fixed Assets	<u>71,772</u>
 Total Assets	 <u><u>\$ 325,815</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 701
Accrued payroll liabilities	2,949
Total Current Liabilities	<u>3,650</u>
 Other Liabilities	
Rent deposit	1,350
Total Other Liabilities	<u>1,350</u>
Total Liabilities	<u>5,000</u>
 Net Assets	
Without Donor Restrictions	320,815
Total Net Assets	<u>320,815</u>
 Total Liabilities and Net Assets	 <u><u>\$ 325,815</u></u>

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

**THE ELM FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

SUPPORT AND REVENUE	
Contributions	\$ 154,550
Fundraiser	25,425
Grant	50,000
Rent received	8,100
TOTAL SUPPORT AND REVENUE	<u>238,075</u>
OPERATING EXPENSES	
Program services	196,756
Support services	
Management and general	59,395
Fundraising	9,567
TOTAL OPERATING EXPENSES	<u>265,718</u>
OTHER INCOME (EXPENSE)	
Investment income	609
Unrealized gains/(losses) on investment	(8,163)
Gain on sale of equipment	184
TOTAL OTHER INCOME (EXPENSE)	<u>(7,370)</u>
Increase (Decrease) in Net Assets	<u>(35,013)</u>
CHANGE IN NET ASSETS	(35,013)
NET ASSETS, BEGINNING	<u>355,828</u>
NET ASSETS, ENDING	<u><u>\$ 320,815</u></u>

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

**THE ELM FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Services	Management and General	Fundraising	Total
Depreciation	\$2,785	\$309	\$0	\$3,094
Education grants	125,370	0	0	125,370
Fundraising	0	0	9,567	9,567
Grants	21,548	0	0	21,548
Insurance	0	1,905	0	1,905
Membership dues	884	723	0	1,607
Miscellaneous	1,253	1,026	0	2,279
Occupancy expense	6,894	5,640	0	12,534
Office expense	3,907	3,197	0	7,104
Salaries	29,700	24,300	0	54,000
Payroll taxes	2,272	1,859	0	4,131
Professional development	531	434	0	965
Professional fees	0	19,296	0	19,296
Repairs and maintenance	84	69	0	153
Taxes and licenses	778	637	0	1,415
Travel	750	0	0	750
TOTAL FUNCTIONAL EXPENSES	\$196,756	\$59,395	\$9,567	\$265,718

The accompanying notes are an integral part of these financial statements

**THE ELM FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

**Reconciliation of Increase in Net Assets to Net Cash
Provided (Used) by Operating Activities**

Increase (Decrease) in Net Assets	\$	(35,013)
Adjustment to Reconcile Net Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation		3,094
Gain on sale of equipment		(184)
Unrealized (gain)/loss on investments		8,163
Decrease (Increase) in:		
Deposits		1,476
Increase (Decrease) in:		
Accrued Expenses		(433)
Accrued payroll and liabilities		<u>1,160</u>
Net Cash Provided (Used) by Operating Activities		<u>(21,737)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of fixed assets		<u>200</u>
Net Cash Provided (Used) by Investing Activities		<u>200</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net Cash Provided (Used) by Financing Activities		<u>0</u>
--	--	----------

Net Decrease in Cash and Cash Equivalents		(21,537)
Cash and Cash Equivalents at Beginning of Year		<u>230,081</u>
Cash and Cash Equivalents at End of Year	\$	<u><u>208,544</u></u>

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

**THE ELM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The ELM Foundation, (the "Foundation") is an Operating Foundation that works to reverse the cycle of poverty by helping individuals and families set goals and create plans so that they can find the resources they need to support their families. ELM is an acronym that stands for "Expect Little Miracles". The Foundation creates "Little Miracles" through grants to individuals who are doing the best they can and who simply need help removing barriers. In addition to providing funding, the foundation also provides coaching and referrals that open doors to self-sufficiency and economic independence so that participants can support themselves and their families. Development plans, accountability, and intensive case management lead to "Little Miracles" that result in success.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018. In addition, the Foundation is required to present a Statement of Functional Expenses and a Statement of Cash Flows.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.
- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. There are no Net Assets with donor restrictions at December 31, 2018.

Support and Revenue Recognition

The Foundation recognizes contributions as support and revenue when the pledged receivable is currently due. Contributions received are recorded as donor restricted or without donor restrictions support, depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as an increase in Net Assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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 restriction. All contributions are considered available for unrestricted use unless specially restricted by the donor or subject to other legal restrictions. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Support and Revenue Recognition (Continued)

The Foundation has elected to report donor-restricted contributions (including contributions of long-lived assets) whose restrictions are met in the same reporting period as unrestricted support.

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. At December 31, 2018, the allowance for uncollectible promises to give was zero.

Donated Equipment, Facilities, and Services

Donated equipment and facilities, if any, are reflected as contributions in the accompanying statements at the estimated value at the date of receipt. In addition, a substantial number of volunteers have donated significant amounts of their time in the organization's program services and in its fund-raising campaigns. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles of the United States of America requires use of management's estimates. Management has made estimates related to accruals of revenues and expenses.

Property and Equipment

Buildings, site improvements, and equipment are stated at cost. It is the Foundation's policy to capitalize significant acquisitions of property and equipment. Additions, improvements, and expenses for repairs and maintenance that extend the economic life of the assets are capitalized. Other expenses for repairs and maintenance are charged to operating accounts when incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Construction in progress is not depreciated until the assets are completed and placed into service.

Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to ELM Foundation's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ELM Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income Tax Status

The Foundation is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. The Foundation is not aware of any tax positions it has taken that are subject to a significant degree of uncertainty. Tax years after December 31, 2014 remain subject to examination by taxing authorities.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and Benefits	Time and Effort
Occupancy & Operations	Actual Expense Paid

Advertising

Advertising costs are expensed as incurred. Total advertising expense for year ended December 31, 2018 was \$0.

Cash and cash equivalents

For the purposes of the statements of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash and money market accounts at a Huntsville, Alabama commercial bank. The FDIC insures the total cash balances at each commercial bank up to \$250,000. Balances of all accounts are stated at cost, which approximates market value. There are no uninsured balances at December 31, 2018.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS- CONTINUED

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

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

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

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

The following table presents the ELM Foundation’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2018.

	Level 1	Level 2	Level 3	Total
Investment	\$ <u>44,300</u>	<u>0</u>	<u>0</u>	<u>44,300</u>
Totals	\$ <u>44,300</u>	<u>0</u>	<u>0</u>	<u>44,300</u>

NOTE 4 - PROPERTY AND EQUIPMENT

The following schedule details the property and equipment for the Foundation.

	01/01/18 Balance	Additions	Deletions	12/31/18 Balance
Land	\$ 15,000	\$ 0	\$ 0	\$ 15,000
Building	67,863	0	0	67,863
Furniture and equipment	7,590	0	(70)	7,520
Accumulated depreciation	<u>(15,570)</u>	<u>(3,094)</u>	<u>53</u>	<u>(18,611)</u>
Total fixed assets, net	\$ <u>74,883</u>	\$ <u>(3,094)</u>	\$ <u>(17)</u>	\$ <u>71,772</u>

NOTE 5 - RISKS AND UNCERTAINTIES

The Foundation has purchased commercial insurance policies for various risks of loss related to torts; thefts, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the Foundation. There were no significant reductions in coverage compared to the prior year.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 6- LEASE COMMITMENTS

For the year ended December 31, 2018, the Organization operated under a lease for the rental of facilities. Rental expense for 2018 was \$12,534.

ELM Foundation signed a new lease on June 10, 2018. The lease term is until May 31, 2021. The lease requires a monthly rent payment of \$1,199 for their facilities.

Future minimum rental payments are as follows:

Year Ended December 31:	
2019	\$14,390
2020	14,390
2021	<u>5,996</u>
	\$34,776

NOTE 7 - LIQUIDITY

ELM Foundation's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and Cash Equivalents	\$ 208,544
Investments, at FMV	<u>44,300</u>
	<u>\$ 252,844</u>

As part of ELM Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, ELM Foundation invests cash in excess of daily requirements in short-term investments.

NOTE 8 - SUBSEQUENT EVENTS

The date through which subsequent events have been evaluated is March 31, 2019. The financial statements were available to be issued at that time.