

SOUTHFACE ENERGY INSTITUTE, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

**Year Ended December 31, 2021
(With Comparative Totals for 2020)**

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Santi & Associates, PC
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors of
Southface Energy Institute, Inc.

Opinion

We have audited the accompanying financial statements of Southface Energy Institute, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, 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 Southface Energy Institute, Inc. as of December 31, 2021, and the changes in net assets 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southface Energy Institute, Inc. 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southface Energy Institute, Inc.'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 Southface Energy Institute, Inc.'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 Southface Energy Institute, Inc.'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 Southface Energy Institute, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 27, 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.



Alpharetta, Georgia
October 12, 2022

SOUTHFACE ENERGY INSTITUTE, INC.**STATEMENT OF FINANCIAL POSITION**

December 31, 2021
(With Comparative Totals for 2020)

ASSETS		
	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents:		
Unrestricted	\$ 4,103,437	\$ 5,185,170
Restricted endowment	23,798	12,386
Accounts receivable	990,556	694,983
Investments:		
Unrestricted	260,326	237,876
Restricted endowment	1,417,761	1,289,499
Current portion of note receivable	9,319	9,227
Other receivables	-	86,529
Prepaid expenses	57,501	72,105
Total Current Assets	<u>6,862,698</u>	<u>7,587,775</u>
Property and Equipment		
Property and equipment, net	<u>2,295,408</u>	<u>2,396,920</u>
Other Assets		
Note receivable, less current portion	78,850	88,168
Deposits	-	3,000
Asset in progress	5,000	-
	<u>83,850</u>	<u>91,168</u>
Total Assets	<u>\$ 9,241,956</u>	<u>\$ 10,075,863</u>

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

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
Current Liabilities		
Current portion of note payable	\$ 119,850	\$ 29,174
Current portion of recoverable grant	26,000	13,000
Accounts payable	398,321	69,935
Accrued compensation	182,283	246,400
Accrued expenses	265,451	439,258
Deferred revenue	<u>3,662,692</u>	<u>3,275,941</u>
Total Current Liabilities	<u>4,654,597</u>	<u>4,073,708</u>
Long-Term Liabilities		
Note payable, less current portion	246,817	370,826
Recoverable grant, less current portion	<u>104,000</u>	<u>117,000</u>
	<u>350,817</u>	<u>487,826</u>
Net Assets (Deficit)		
Without donor restrictions	(957,190)	936,503
With donor restrictions	<u>5,193,732</u>	<u>4,577,826</u>
	<u>4,236,542</u>	<u>5,514,329</u>
Total Liabilities and Net Assets	\$ 9,241,956	\$ 10,075,863

SOUTHFACE ENERGY INSTITUTE, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2021	2020
Support and Revenue				
Program revenue	\$ 914,018	\$ 4,908,894	\$ 5,822,912	\$ 6,231,519
Donations	293,845	10,000	303,845	131,661
Investment income (loss), net	35,391	129,674	165,065	140,300
In-kind contributions	10,851	-	10,851	9,870
Forgiveness of PPP loan	-	-	-	609,500
Other income	13,024	-	13,024	9,779
Gain on disposal of assets	-	-	-	2,600
	<u>1,267,129</u>	<u>5,048,568</u>	<u>6,315,697</u>	<u>7,135,229</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	4,432,662	(4,432,662)	-	-
Total Support and Revenue	<u>5,699,791</u>	<u>615,906</u>	<u>6,315,697</u>	<u>7,135,229</u>
Expenses				
Program services	6,488,771	-	6,488,771	5,259,182
General and administrative	796,606	-	796,606	1,005,819
Fundraising	308,107	-	308,107	386,743
Total Expenses	<u>7,593,484</u>	<u>-</u>	<u>7,593,484</u>	<u>6,651,744</u>
Change in Net Assets	(1,893,693)	615,906	(1,277,787)	483,485
Net Assets (Deficit)				
Beginning of Year	<u>936,503</u>	<u>4,577,826</u>	<u>5,514,329</u>	<u>5,030,844</u>
End of Year	<u>\$ (957,190)</u>	<u>\$ 5,193,732</u>	<u>\$ 4,236,542</u>	<u>\$ 5,514,329</u>

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

SOUTHFACE ENERGY INSTITUTE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021
(With Comparative Totals for 2020)

	2021		
	Program Services	General and Administrative	Fundraising
Salaries and wages	\$ 2,674,702	\$ 94,784	\$ 192,531
Payroll taxes	203,385	7,208	14,640
Employee benefits	246,224	8,725	17,724
Charitable grants	2,226,525	-	-
Contract labor	866,526	45,120	54,511
Professional fees	2,481	72,787	335
Supplies and equipment	18,471	35,364	6,984
Rent and equipment and facility rentals	-	-	4,000
Printing, photocopying, and photography	2,825	6,253	804
Postage and delivery	737	2,069	-
Travel	35,153	5,534	16,284
Repairs and maintenance	75,405	77,219	-
Utilities	2,289	32,467	58
Insurance	2,132	72,773	-
Staff development	10,572	1,939	229
Bank and credit card fees	263	7,869	7
Fees, licenses, and permits	104,768	106,831	-
Taxes	744	2,489	-
Advertising	12,452	-	-
Donations	925	500	-
Depreciation	-	177,655	-
Interest	-	10,499	-
Miscellaneous	2,192	28,521	-
Total Expenses	\$ 6,488,771	\$ 796,606	\$ 308,107

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

	Total		2020
\$	2,962,017	\$	3,264,603
	225,233		227,523
	272,673		312,606
	2,226,525		1,116,278
	966,157		786,053
	75,603		45,775
	60,819		185,544
	4,000		99,359
	9,882		14,640
	2,806		2,260
	56,971		24,134
	152,624		61,734
	34,814		47,904
	74,905		65,377
	12,740		42,839
	8,139		14,511
	211,599		154,132
	3,233		2,330
	12,452		10,563
	1,425		12,416
	177,655		148,211
	10,499		12,952
	30,713		-
\$	7,593,484	\$	6,651,744

SOUTHFACE ENERGY INSTITUTE, INC.

STATEMENT OF CASH FLOWS

**Year Ended December 31, 2021
(With Comparative Totals for 2020)**

	<u>2021</u>	<u>2020</u>
Cash Flow from Operating Activities		
Change in net assets	\$ (1,277,787)	\$ 483,485
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	177,655	148,211
Realized and unrealized gain on investments	(88,708)	(86,442)
Gain on disposal of assets	-	(2,600)
(Increase) Decrease in:		
Accounts receivable	(295,573)	(29,174)
Note receivable	9,226	(97,395)
Other receivables	86,529	(86,529)
Prepaid expenses	14,604	(48,877)
Deposits	3,000	-
Increase (Decrease) in:		
Accounts payable	328,386	(101,080)
Accrued compensation	(64,117)	(5,388)
Accrued expenses	(173,807)	434,013
Deferred revenue	386,751	825,820
Net cash provided by (used in) operating activities	<u>(893,841)</u>	<u>1,434,044</u>
Cash Flow from Investing Activities		
Proceeds from sale of investments	335,637	502
Purchase of investments	(397,641)	(45,684)
Proceeds from disposal of assets	-	3,077
Purchase of property and equipment	(76,143)	(196,042)
Asset in progress	(5,000)	-
Net cash used in investing activities	<u>(143,147)</u>	<u>(238,147)</u>
Cash Flow from Financing Activities		
Net payments on note payable	(33,333)	-
Proceeds from recoverable grant	-	130,000
Net cash provided by (used in) financing activities	<u>(33,333)</u>	<u>130,000</u>

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

	<u>2021</u>	<u>2020</u>
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	(1,070,321)	1,325,897
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	<u>5,197,556</u>	<u>3,871,659</u>
Cash, Cash Equivalents, and Restricted Cash at End of Year	<u>\$ 4,127,235</u>	<u>\$ 5,197,556</u>

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Southface Energy Institute, Inc. (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity.

1. Nature of Organization

The mission of the Organization is to promote sustainable homes, workplaces, and communities through education, research, advocacy, and technical assistance.

2. Basis of Presentation

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities*. ASC 958 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two classes of net assets. A description of the two classes of net assets follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to or are no longer subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

Net Assets With Donor Restrictions

Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are recorded as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization has adopted a policy to classify donor restricted contributions as with donor restrictions even if those donor restrictions were met in the year the contributions were received.

3. Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. Under this method, revenue is recognized when earned and expenses are recognized when incurred.

4. 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 reported amounts and disclosures. Actual results could differ from those estimates.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

5. Cash and Cash Equivalents

For the purposes of the statement of financial position and the statement of cash flows, the Organization considers all cash on hand, highly liquid bank deposits, and short-term debt securities with an original maturity of three months or less to be cash or cash equivalents.

6. Accounts Receivable

The Organization provides an allowance for doubtful accounts equal to the estimated uncollectible accounts receivable. The Organization's estimate is based on historical collection experience and a review of the current status of accounts receivable. All accounts or portions thereof deemed to be uncollectable are charged to allowance for doubtful accounts. Accounts are generally written off when twelve months delinquent. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change. Accounts receivable is presented net of an allowance for doubtful accounts of \$174,800 at December 31, 2021. There was no bad debt expense for the year ended December 31, 2021.

7. Contributions

Unconditional contributions, those that do not include a measurable performance-related or other barrier or are those in which the Organization has limited discretion over how the contribution should be spent, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Contributions that include a measurable barrier or those for which the Organization has limited discretion over how the contribution should be spent and a right of return or release from future obligations are recorded as conditional contributions. Conditional contributions are not recognized until they become unconditional, that is, when the conditions surrounding the indications of the barrier have been met.

8. Investments

Investments consist of mutual funds and shares of common stock of several publicly traded companies. These investments are equity securities reported at fair value, with unrealized gains and losses included on the statement of activities. The basis in determining unrealized gains and losses is the difference between book value and fair value of each security at year end. Fair values have been determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market. The method used to determine cost when calculating realized gains or losses when securities are sold is the specific identification method. Realized gains and losses flow through to the Organization's annual support and revenue.

In aggregate, these investments had an original cost of \$1,589,379 and a market value of \$1,678,087 at December 31, 2021. The unrealized gains for these investments were \$88,708 at December 31, 2021. Additionally, for the year ended December 31, 2021, there were no realized gains, and there were custodial and investment advisory fees were \$9,619.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

9. Property and Equipment

Property and equipment are stated at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally using the straight-line method.

The estimated useful lives in determining depreciation are:

	<u>Years</u>
Southface Energy and Environmental Resource Center	10 - 20
Eco Office Building	20
Improvements	10 - 20
Equipment	5 - 10
Computer equipment	5
Furniture and fixtures	7
Software	3
Vehicles	5

Expenditures for property and equipment and for renewals or improvements, which extend the original estimated economic life of the asset and are \$2,500 or greater, are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. When an asset is sold or otherwise disposed, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

Depreciation expense for the year ended December 31, 2021 was \$177,655.

Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose.

10. Donated Services

Many volunteers have made significant contributions of their time to develop and promote the programs of the Organization. The value of these donated services is not included in the accompanying financial statements, as such services do not create or enhance non-financial assets or require specialized skills.

11. Revenue from Service Contracts and Grant Agreements

The Organization recognizes revenue on service contracts and grant agreements ratably over applicable contract periods or as services, stipulated in the contract and grant agreements, are performed and at an amount that reflects the consideration to which the Organization expects to be entitled to in exchange for transferring services to a customer. The Organization will allocate the transaction price of the contract or agreement to the specific performance obligations based on the contract or agreement. The Organization recognizes revenue when the performance obligations are met and delivered to the customer. Amounts billed and collected before the performance obligations are met are included in deferred revenue.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

12. Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$12,452 for the year ended December 31, 2021.

13. Prior Year Information

The financial statements include certain prior year summarized comparative totals. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2020, from which the summarized totals were derived. Certain reclassifications of prior year comparative totals have been made in order to conform to the current year presentation. These changes did not affect net assets.

14. Income Taxes

Southface Energy Institute, Inc., a nonprofit organization operating under Section 501(c)(3) of the Internal Revenue Code, is exempt from federal, state, and local income taxes and, accordingly, no provision for income taxes is included in the accompanying financial statements for the Organization.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by the Internal Revenue Service and Georgia Department of Revenue. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2018.

15. Subsequent Events

Subsequent events have been evaluated through October 12, 2022, which is the date the financial statements were available to be issued.

NOTE B – FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and accounts receivable.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE B – FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK, continued

The Organization maintains its cash and cash equivalent accounts with highly rated financial institutions. At times, such deposits may be in excess of federally insured limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000 per institution, or the Securities Investor Protection Corporation (SIPC), up to \$500,000 per institution, at December 31, 2021. At December 31, 2021, the Organization had uninsured cash deposits totaling \$5,128,917. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risk of loss.

Accounts receivable consists of grants and contracts billed for services rendered and expenses incurred. Credit risk with respect to accounts receivable is limited due to the number and credit worthiness of the government entities and organizations from whom the amounts are due. The Organization does not generally require collateral for revenues billed or services provided.

The Organization received 55% of its support from two grantors for the year ended December 31, 2021.

The Organization depends heavily on grants from and contracts with the federal government, state governments, and various organizations. Accordingly, the Organization's ability to fund its programs and services will be affected by national economic conditions and national and state energy policies.

NOTE C – FAIR VALUE OF INVESTMENTS

The following is the major category of assets and liabilities measured at fair value on a recurring basis during the year ended December 31, 2021, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Description	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at December 31, 2021
Mutual funds	\$ 1,677,814	\$ -	\$ -	\$ 1,677,814
Common stock	273	-	-	273
Total	<u>\$ 1,678,087</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,678,087</u>

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment, as of December 31, 2021, is summarized as follows:

Southface Energy and Environmental Resource Center	\$ 1,087,167
Eco Office Building	2,675,352
Land	1,172,149
Improvements	223,003
Equipment	92,835
Computer equipment	44,108
Furniture and fixtures	7,539
Software	65,376
Vehicles	<u>75,690</u>
	5,443,219
Less accumulated depreciation	<u>(3,147,811)</u>
	<u><u>\$ 2,295,408</u></u>

NOTE E – NOTE RECEIVABLE

On August 6, 2020, the Company entered into an agreement with SPE – SAE School Solar Project, LLC (SPE) to loan \$97,278 over a 10-year term at an annual interest rate of 1%. Monthly payments of \$846, comprised of principal and interest, are due over the 10-year term with all remaining principal and accrued interest due on January 1, 2031. The note is secured by first priority lien upon, security title to, and a security interest in and to all of SPE's right, title, and interest in and to a solar energy system. As of December 31, 2021, the outstanding balance on the note receivable, including accrued interest, is \$88,169.

NOTE F – NOTE PAYABLE

On September 17, 2019, the Organization entered into a \$400,000 note payable with Truist Bank for the purchase of land, which the Southface Energy and Environmental Resource Center and Eco Office Building are located on. Beginning on October 17, 2019, the note requires interest only payments for 24 consecutive months and bears interest at the one-month LIBOR rate plus 2.5% (2.6% at December 31, 2021). Beginning on October 17, 2021, the note requires 35 consecutive principal and interest monthly payments in the amount of \$11,111 with a final payment of the unpaid balance, plus any accrued interest, due on September 17, 2024. The note is secured by all assets of the Organization. At December 31, 2021, the outstanding balance on this note was \$366,667.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE F – NOTE PAYABLE, continued

Maturities of long-term debt are as follows:

Year Ended December 31,	
2022	\$ 119,850
2023	125,060
2024	<u>121,757</u>
	<u><u>\$ 366,667</u></u>

NOTE G – RECOVERABLE GRANT

The Organization received a recoverable grant from Fidelity Charitable in the amount of \$130,000 on July 22, 2020. This grant was issued by Fidelity Charitable to provide support for the Organization to develop a renewable energy solar and battery system for a K-8 Atlanta school called the SAE School. The grant funds are available over a five-year period. Under the terms of the agreement, the Organization will be required to repay a minimum of \$13,000 every June in equal installments over five years to the extent the Organization receives repayment from the SAE School for the solar and battery system. If the Organization does not repay the full repayment amount by July 22, 2025, the Organization will provide Fidelity Charitable with a notification on or before that date of any payments made to date and a proposed updated repayment schedule. The Organization has reflected this recoverable grant as a current liability of \$26,000 and long-term liability of \$104,000 in the statement of financial position at December 31, 2021.

NOTE H – ACCOUNTING AND REPORTING FOR ENDOWMENT

The Endowment

The Organization's endowment consists of an individual fund established for maintaining and updating technologies in the Eco Office and supporting building science research related to the Eco Office. Its endowment includes only donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE H – ACCOUNTING AND REPORTING FOR ENDOWMENT, continued

Interpretation of Relevant Laws

The Organization is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions because those net assets are time restricted until the Board appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of the Organization has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment fund, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization 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 Organization 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 the appreciation of investments.
- (6) Other resources of the Organization.
- (7) The investment policies of the Organization.

Endowment Net Asset Composition by Type of Fund as of December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	-	-
Accumulated investment gains	-	-	-
Term endowment	-	1,441,559	1,441,559
Total endowment funds	<u>\$ -</u>	<u>\$ 1,441,559</u>	<u>\$ 1,441,559</u>

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE H – ACCOUNTING AND REPORTING FOR ENDOWMENT, continued

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,301,885	\$ 1,301,885
Investment return, net	-	129,674	129,674
Contributions	-	10,000	10,000
Appropriation of endowment assets for expenditure	-	-	-
Other changes:			
Transfer to create Board-designated endowment funds	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,441,559</u>	<u>\$ 1,441,559</u>

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2021.

Return Objectives and Risk Parameters

The Organization has adopted 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. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that reach a target rate of return as set forth by the Board or above median returns generated by comparable benchmark portfolios while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE H – ACCOUNTING AND REPORTING FOR ENDOWMENT, continued

Spending Policy and How Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution, depending on fiscal need, each year pending approval by the Eco Office Committee. In establishing this policy, the Organization will consider the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to continue to grow. The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

NOTE I – COMMITMENTS AND CONTINGENCIES

The Organization has received federal, state, and agency grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. Management is not aware of any potential losses from such disallowances and believes that reimbursements, if any, would not be material.

The Organization entered into an operating lease for two office copiers. The monthly payment for these copiers is \$365, and the lease expires in March 2026. Office copier lease expense incurred during the year ended December 31, 2021 was \$5,122.

Future minimum lease payments are as follows:

Year Ended	
<u>December 31,</u>	
2022	\$ 4,378
2023	4,378
2024	4,378
2025	4,378
2026	1,095
	<hr/>
	\$ 18,607
	<hr/>

NOTE J – BOARD-DESIGNATED NET ASSETS

The Organization's Board has designated, from net assets without donor restrictions, net assets for the following purpose as of December 31, 2021:

Emerging Leaders program	<u>\$ 263,279</u>
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SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2021:

Subject to expenditure for specified purpose:

JPB Foundation	\$ 1,628,423
The Kendeda Fund	1,608,747
Cox Communications	250,000
Chick-fil-A Sustainable Building Program	163,500
Southeast Sustainable Communities Fund	100,900
East Point Environmental Collective	603

3,752,173

Endowment fund:

Updating technologies and supporting building science related to the Eco Office	1,441,559
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Total net assets with donor restrictions	\$ 5,193,732
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NOTE L – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors during the year ended December 31, 2021 are as follows:

Purpose restrictions accomplished:

The Kendeda Fund	\$ 2,904,063
JPB Foundation	1,103,417
Energy Foundation	264,233
Southeast Sustainable Communities Fund	49,100
Kresge Foundation	44,205
Chick-fil-A Sustainable Building Program	42,500
Callaway Foundation	25,000
East Point Environmental Collective	144

4,432,662

Release of appropriated endowment amounts with purpose restrictions

	\$ 4,432,662
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SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE M – FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the program activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services while other costs are directly charged to the functions they benefit. Expenses have been classified based on actual direct expenditures and costs allocations based on estimates made by the Organization.

NOTE N – RETIREMENT PLAN

The Organization sponsors a salary reduction contribution plan pursuant to Section 403(b) of the Internal Revenue Code. The plan covers all employees, except interns, who work at least twenty hours per week. The plan allows the Organization to make discretionary contributions each year and allocate the contributions based on each participant's proportionate share of total compensation paid during the year to all participants in the plan. The Organization's contributions to the plan totaled \$36,876 during the year ended December 31, 2021.

NOTE O – LAND AVAILABLE FOR SALE

The Organization owns .12 acres of land located on Colmer Avenue in Atlanta, Georgia. The land was donated to the Organization. The land is available for sale; however, the size and location of the lot make this land difficult to sell. The fair market value of the land cannot be accurately determined and as a result it is not listed on the statement of financial position.

NOTE P – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization has a policy to manage its liquidity by structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization has maintained sufficient reserves that are invested in short-term investment accounts. Occasionally, the Board will designate a portion of any operating surplus to reserves for unanticipated liquidity needs. There is a fund established by the Board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE P – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS, continued

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

Cash and cash equivalents	\$ 4,127,235
Accounts receivable	1,165,356
Investments	1,678,087
Current portion of note receivable	<u>9,319</u>
Total financial assets	6,979,997
Less amounts unavailable for general expenditures within one year:	
Board-designated funds	(263,279)
Donor imposed restrictions	(3,752,173)
Endowment funds	<u>(1,441,559)</u>
	<u>\$ 1,522,986</u>

The Organization's endowment fund is a donor-restricted endowment; therefore, since income from this endowment is restricted for a specific purpose, it is not available for general expenditures.

NOTE Q – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,103,437	\$ 5,185,170
Restricted cash included in assets restricted to endowment	<u>23,798</u>	<u>12,386</u>
	<u>\$ 4,127,235</u>	<u>\$ 5,197,556</u>

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE Q – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION, continued

Cash paid during the year ended December 31, 2021:

Interest	<u>\$ 10,499</u>
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All interest incurred was expensed.

Noncash investing and financing transactions:

In-kind contributions:

Equipment	\$ 5,767
Contract labor	4,611
Miscellaneous	<u>473</u>
	<u>\$ 10,851</u>

NOTE R – SUBSEQUENT EVENTS

As a result of the COVID-19 pandemic, economic uncertainties have arisen which could potentially have a negative impact on the performance of the Organization, though the potential impact is currently unknown.