

**THE HIGHLANDS BIOLOGICAL
FOUNDATION, INC.**

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021



CORLISS &
SOLOMON
PLLC

CERTIFIED PUBLIC ACCOUNTANTS

The Highlands Biological Foundation, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Highlands Biological Foundation, Inc.
Highlands, North Carolina

Opinion

We have audited the accompanying financial statements of The Highlands Biological Foundation, Inc., 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 The Highlands Biological Foundation, Inc. as of December 31, 2021, and the changes in its net assets and in 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 Highlands Biological Foundation, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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 Highland's Biological Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Highlands Biological Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Highlands Biological Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Carliss & Solomon, PLLC

Asheville, North Carolina
February 15, 2023

The Highlands Biological Foundation, Inc.

Statement of Financial Position

As of December 31, 2021

Assets

Current Assets

Cash and Cash Equivalents	\$	173,031
Grants Receivable		81,735
Accounts Receivable		644
Total Current Assets		<u>255,410</u>

Long-Term Assets

Investments		3,094,806
Property and Equipment, Net		154,153
Total Long-Term Assets		<u>3,248,959</u>

Total Assets **\$** **3,504,369**

Liabilities and Net Assets

Current Liabilities

Accounts Payable	\$	1,466
Payroll Liabilities		3,438
Total Current Liabilities		<u>4,904</u>

Net Assets

Without Donor Restrictions		2,205,670
With Donor Restrictions		1,293,795
Total Net Assets		<u>3,499,465</u>

Total Liabilities and Net Assets **\$** **3,504,369**

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

The Highlands Biological Foundation, Inc.

Statement of Activities

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	\$ 149,333	\$ 183,949	\$ 333,282
Grants	143,835	21,550	165,385
Event Income	116,585	-	116,585
Program Service Revenue	42,791	-	42,791
Investment Income (Net of Fees)	330,234	136,655	466,889
Net Assets Released from Restrictions	103,657	(103,657)	-
Total Support and Revenue	886,435	238,497	1,124,932
Expenses			
Program Services	417,645	-	417,645
Management and General	63,142	-	63,142
Fundraising	93,288	-	93,288
Total Expenses	574,075	-	574,075
Change in Net Assets	312,360	238,497	550,857
Net Assets, Beginning of Year	1,893,310	1,055,298	2,948,608
Net Assets, End of Year	\$ 2,205,670	\$ 1,293,795	\$ 3,499,465

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

The Highlands Biological Foundation, Inc.

Statement of Functional Expenses

Year Ended December 31, 2021

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Direct Station Support				
Institute for the Environment	\$ 100,000	\$ -	\$ -	\$ 100,000
North Campus Project	64,232	-	-	64,232
Grants in Aid of Research	19,575	-	-	19,575
Other Station Support	19,855	-	-	19,855
Events				
Carpenter Lecture	12,166	-	-	12,166
Highlands on the Half Shell	-	-	7,485	7,485
Soiree	-	-	25,801	25,801
Zahner Lecture	12,031	-	-	12,031
Exhibits and Gardens				
Botanical Garden	1,389	-	-	1,389
Nature Center	12,206	-	-	12,206
Other Expenses	18,110	-	-	18,110
Bank Fees	-	3,144	-	3,144
Depreciation Expense	3,292	1,958	-	5,250
Dues and Subscriptions	4,827	3,218	-	8,045
Foundation Personnel	133,617	26,285	59,140	219,042
HBF Property Expense	7,732	-	-	7,732
Insurance	1,034	2,288	458	3,780
Miscellaneous	-	5,595	-	5,595
Office Supplies	2,679	315	158	3,152
Postage and Printing	4,188	492	246	4,926
Professional Fees	-	18,749	-	18,749
Travel and Meetings	712	1,098	-	1,810
Total Expenses	\$ 417,645	\$ 63,142	\$ 93,288	\$ 574,075

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

The Highlands Biological Foundation, Inc.

Statement of Cash Flows

Year Ended December 31, 2021

Cash Flows from Operating Activities

Change in Net Assets	\$	550,857
Adjustments to reconcile change in net assets to net cash provided or used by operating activities:		
Depreciation		5,250
PPP Loan Recognized as Revenue		(62,100)
Investment Income, Net of Fees		(466,889)
Stock Donations Received		(8,222)
(Increase)/Decrease in Operating Assets		
Grants Receivable		(81,735)
Accounts Receivable		(455)
Increase/(Decrease) in Operating Liabilities		
Accounts Payable		709
Payroll Liabilities		3,438
Net Cash Used by Operating Activities		<u>(59,147)</u>

Cash Flows from Investing Activities

Purchase of Investments, Net		<u>100,000</u>
Net Cash Provided by Investing Activities		<u>100,000</u>

Cash Flows from Financing Activities

Proceeds from PPP Loan		<u>30,500</u>
Net Cash Provided by Financing Activities		<u>30,500</u>

Net Change in Cash and Cash Equivalents		<u>71,353</u>
Cash and Cash Equivalents, Beginning of Year		<u>101,678</u>
Cash and Cash Equivalents, End of Year	\$	<u>173,031</u>

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

The Highlands Biological Foundation, Inc.

Disclosures to the Financial Statements

Year Ended December 31, 2021

1. Description of the Organization, Corporate and Tax-Exempt Status

The Highlands Biological Foundation, Inc. (the Foundation) is an independent 501(c)(3) non-profit. The Foundation promotes and supports biological education and research in the Southern Appalachians. Long associated with the Highlands Biological Station, the Foundation holds many of its programs at the Station, especially the Highlands Nature Center. The Foundation provides grants to researchers, scholarships to students, and focuses on community outreach via summer camps, lecture series, and special educational events at the Highlands Nature Center focused on all ages including preschool, adult, and family events. The Foundation is directed by a Board of Directors elected from the membership and is managed by an Executive Director.

The Foundation was incorporated in November 1975 as a not-for-profit corporation under the laws of the state of North Carolina and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Contributions to the organization qualify for the charitable contribution deduction under Section 170(b)(1)(a). The organization is classified as a publicly supported organization under Section 509(a)(1). The organization is funded primarily by contributions and grants.

2. Summary of Significant Accounting Policies

Change in Year End

The Foundation changed its reporting year from a fiscal year ending May 31 to a calendar year ending December 31. This change was effective for the year ended December 31, 2021. The accompanying financial statements are for the full 12-month year ended December 31, 2021.

Basis of Accounting

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require an organization to report information regarding its financial position and activities according to the following net asset classifications:

Financial Statement Presentation

The classification of the organization's net assets, and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of two classes of net assets – without donor restrictions and with donor restrictions – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The classes of net assets are defined as follows:

Net Assets Without Donor Restrictions – Includes net assets that are not subject to donor-imposed restrictions and that may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the organization's management and board of directors.

Net Assets With Donor Restrictions - Includes net assets that are subject to restrictions imposed by donors or grantors. Some donor and grantor restrictions are temporary in nature, such as those with a specified purpose or a timeframe for expenditure established by the donor or grantor. Other donor-imposed restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents

For purposes of reporting on the statement of cash flows, the Foundation considers highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Cash held for long-term purposes and money funds held by investment brokers are not considered cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the organization to concentrations of credit risk consist principally of cash and cash equivalents. The organization maintains its cash and cash equivalents in various bank accounts that, at times, may exceed FDIC federally insured limits. The organization's cash and cash equivalent accounts have been placed with high credit quality financial institutions. The organization has not experienced, nor does it anticipate, any losses with respect to such accounts.

Investments

The organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income and realized and unrealized capital gains and losses, net of investment expenses.

Accounts Receivable

Accounts receivable represent uncollected amounts for program services carried out on a fee-for-service basis. An allowance for doubtful accounts is established for amounts deemed uncollectible, if needed.

Contributions and Grants Receivable

Contributions and grants receivable, without conditions, and expected to be collected within one year are recorded at net realizable value; those expected to be collected in more than one year are recorded at the present value of their future cash flows, using a risk adjusted interest rate. Any provision for uncollectible receivables is estimated by management based on historical collection experience.

Property and Equipment

Property and equipment purchases are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The organization has adopted a capitalization threshold of \$2,500 per item. Expenses for repairs and maintenance that do not improve or extend the life of an asset are expensed as incurred.

Contributions and Grants

Contributions and grants are recognized in support: (1) when the organization receives cash, securities or other assets from a donor or grantor, (2) when a donor conveys a promise to make a donation in the future, on an unconditional basis, and (3) when a grantor awards a grant to be paid in the future, on an unconditional basis. Contributions and grants with conditions, such as performance requirements, are not recognized until the conditions on which they depend have been substantially met.

Program Service Revenue

In accordance with U.S. GAAP, the organization follows ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

In-Kind Contributions

The organization recognizes contributed goods and the use of facilities at estimated fair value on the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. When recognized, contributed services are reported at fair value.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Certain valuation techniques are used to measure fair value. There are three broad levels as follows:

- *Level 1* – (the highest level) inputs are based on quoted prices in active markets for identical assets or liabilities that the organization has the ability to access at the measurement date. For example, securities traded in an active market are valued using Level 1 inputs.
- *Level 2* – inputs are observable inputs other than quoted prices, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term.
- *Level 3* – inputs are unobservable inputs for the asset or liability, meaning the inputs reflect the Organization's own assumptions about the assumptions market participants would use in pricing the asset or liability, including inputs related to risk, which have been developed based on the best information available in the circumstances.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain categories of expenses that are attributable to more than one program or supporting function require management's allocation on a reasonable basis that is consistently applied. The primary allocation basis used by management for personnel expenses and applicable overhead expenses is estimated based on employee time and effort.

Income Taxes/Uncertain Tax Positions

The Foundation is exempt from federal income taxes under 501(c)(3) of the Internal Revenue Code. Under the Code, however, income from certain activities not related to the organization's tax-exempt purpose may be subject to taxation as unrelated business income. The organization had no income from unrelated business activities in 2021 and was, therefore, not required to file Federal Form 990-T (Exempt Organization Business Income Tax Return). The organization believes that it has appropriate support for all tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

3. Liquidity and Availability

The organization's liquidity management plan includes investing cash in excess of daily requirements into investment accounts. Financial assets available for general expenditure, within one year of the statement of financial position date as of December 31, 2021, are calculated as shown below:

Financial Assets at Year end:	
Cash and Cash Equivalents	\$ 173,031
Grants Receivable	81,735
Accounts Receivable	644
Investments	<u>3,094,806</u>
Total Financial Assets	3,350,216
Less Amounts not Available to be Used in One Year:	
Net Assets With Donor Restrictions	<u>1,293,795</u>
Total Not Available to be Used in One Year	<u>1,293,795</u>
Financial Assets Available to Meet General Expenditures Over the Following Year	<u><u>\$ 2,056,421</u></u>

4. Cash and Cash Equivalents

Cash and cash equivalent amounts consist of the following as of December 31, 2021:

Operating Checking Accounts	\$ 172,547
North Campus Checking Account	<u>484</u>
Total Cash and Cash Equivalents	<u><u>\$ 173,031</u></u>

5. Grants Receivable

Grants Receivable consists of an Employee Retention Credit due for 2021 totaling \$81,735 as of December 31, 2021.

6. Investments

Investments are maintained in two accounts with Benjamin Edwards. Investment activity for the year ended December 31, 2021, is as follows:

	<u>Foundation</u>	<u>North Campus</u>	<u>Total</u>
As of December 31, 2020	\$ 2,197,763	\$ 521,932	\$ 2,719,695
Contributions	8,222	-	8,222
Interest and Dividends	36,248	9,839	46,087
Investment Gains	418,290	26,728	445,018
Investment Fees	(20,256)	(3,960)	(24,216)
Withdrawals	<u>(100,000)</u>	-	<u>(100,000)</u>
As of December 31, 2021	<u><u>\$ 2,540,267</u></u>	<u><u>\$ 554,539</u></u>	<u><u>\$ 3,094,806</u></u>

Asset allocation by investment type is as follows:

Mutual Funds/Stocks	\$ 2,187,726
Bonds	105,397
Certificates of Deposit	625,799
Cash & Money Market Funds	<u>175,884</u>
Total Investments	<u><u>\$ 3,094,806</u></u>

7. Property and Equipment

The Foundation owns two tracts of land, Dulany and Howell, which were received by donation in 1965 and 1948, respectively. They are maintained on the books at original cost value. In April 2015, the organization received via bequest the Sato Property and Building listed below at estimated fair value. Property and equipment as of December 31, 2021 are summarized as follows:

Dulany Bog (8 acres)	\$ 4,300
Howell Lands (6.25 acres)	1,800
Sato Property (1.38 acres)	67,500
Total Lands	<u>73,600</u>
Building (Sato Property)	98,760
Office Equipment	13,379
Less: Accumulated Depreciation	<u>(31,586)</u>
Total Building and Equipment, Net	<u>80,553</u>
Total Property and Equipment, Net	<u>\$ 154,153</u>

8. North Campus Project

The Highlands Biological Foundation conducted a multi-year capital campaign to build an addition and enhancement of the Highlands Biological Station's North Campus. Constructed under a temporary ground lease from WCU, this project includes a pollinator garden, a walkway around the lake, a teaching pavilion, widened dam, and a new entrance with parking and restroom facilities. As of December 31, 2021 approximately \$2,065,438 had been expended on this project. The North Campus Project is awaiting inspection by the State Construction Office. Upon passing the inspection, the temporary ground lease will end.

9. Note Payable (PPP Loan)

On May 1, 2020, the organization received a Paycheck Protection Program (PPP) loan in the amount of \$31,600. On February 1, 2021, the organization received a second Paycheck Protection Program (PPP) loan in the amount of \$30,500. These loans were forgivable if the organization met certain criteria. The loans had an interest rate of 1% and were due within five years from the date of origination, and there is no penalty for early payment. There are no collateral or personal guarantees associated with these loans. On March 16, 2021, and September 16, 2021, Highlands Biological Foundation received confirmation from the Small Business Administration that the loans were forgiven in full, and these amounts were recognized as grant revenue in 2021.

10. Net Assets With Donor Restrictions

The Foundation generally maintains net assets with donor restrictions in its Benjamin Edwards investment account and its operating checking account. It is the Foundation's policy that investment income and gains on the long-term program funds and the scholarship funds are added to the net asset with donor restrictions. The Foundation maintains \$106,007 of the endowment balance in perpetuity. As of December 31, 2021, net assets with donor restrictions were available for the following programs and purposes (see next page):

Endowment Fund	\$	259,768
Nature Center		2,355
Botanical Garden		18,632
Zahner Lectures		15,938
Carpenter Fund		65,656
Woodruff Fund (North Campus)		554,539
Sanger Fund		63,549
Research		7,276
Documentary		10,000
Grumbles		68,664
Other Projects		5,214
Scholarship Funds:		
Olive		91,738
Howell		13,151
Coker		16,706
Sargent		20,058
Bruce		31,692
Haggard		10,738
Semlitsch		38,121
Net Assets with Donor Restrictions	\$	<u>1,293,795</u>

11. ***Fair Value Measurements***

Fair values of assets measured on a recurring basis as of December 31, 2021, are as shown on the following schedule:

	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Level 1	Level 2	Level 3
Investments				
Mutual Funds/Stocks	\$ 2,187,726	\$ 2,187,726	\$ -	\$ -
Bonds	105,397	105,397	-	-
Certificates of Deposit	625,799	625,799	-	-
Money Funds	175,884	175,884	-	-
Total	<u>\$ 3,094,806</u>	<u>\$ 3,094,806</u>	<u>\$ -</u>	<u>\$ -</u>

12. ***Subsequent Events***

Subsequent events have been evaluated through February 15, 2023, which is the date the financial statements were available to be issued.