

The Blue Bird Circle

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended May 31, 2021 and 2020

The Blue Bird Circle

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Independent Auditors' Report

To the Board of Directors of
The Blue Bird Circle
The Blue Bird Foundation:

We have audited the accompanying financial statements of The Blue Bird Circle and The Blue Bird Foundation (collectively Blue Bird), which comprise the consolidated statements of financial position as of May 31, 2021 and 2020 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits 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 auditors' 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 consolidated financial position of Blue Bird as of May 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information in the consolidating statements of financial position as of May 31, 2021 and 2020 and consolidating statements of activities for the years ended May 31, 2021 and 2020 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Blazek & Vetterling

September 27, 2021

The Blue Bird Circle

Consolidated Statements of Financial Position as of May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 785,559	\$ 505,494
Interest and other receivable		62,004
Contributions receivable	18,330	68,150
Prepaid expenses and other assets	10,987	48,905
Investments (<i>Notes 3 and 4</i>)	24,057,752	20,068,961
Property and equipment, net (<i>Note 5</i>)	<u>5,489,170</u>	<u>5,706,851</u>
TOTAL ASSETS	<u>\$ 30,361,798</u>	<u>\$ 26,460,365</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 59,943	\$ 34,957
Construction payable		10,754
Consignments payable	49,735	39,417
Grants payable	95,821	178,284
Paycheck Protection Program refundable advance (<i>Note 2</i>)	91,630	118,060
Special event refundable advance		<u>147,100</u>
Total liabilities	<u>297,129</u>	<u>528,572</u>
Net assets (<i>Note 9</i>):		
Without donor restrictions (<i>Note 6</i>)	29,074,574	25,142,537
With donor restrictions (<i>Note 7</i>)	<u>990,095</u>	<u>789,256</u>
Total net assets	<u>30,064,669</u>	<u>25,931,793</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,361,798</u>	<u>\$ 26,460,365</u>

See accompanying notes to consolidated financial statements.

The Blue Bird Circle

Consolidated Statement of Activities for the year ended May 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Blue Bird Circle Resale Shop, net of consignment payments of \$337,361	\$ 356,489		\$ 356,489
Contributions (<i>Note 2</i>)	152,874	\$ 285,705	438,579
Blue Bird Fall luncheon	152,475		152,475
Direct donor benefits of Fall luncheon	(27,405)		(27,405)
Other Circle projects and sales	24,848		24,848
Membership contributions	46,566		46,566
Net investment return	<u>4,548,187</u>	<u>185,139</u>	<u>4,733,326</u>
Total revenue	5,254,034	470,844	5,724,878
Net assets released from restrictions:			
Program expenditures	<u>270,005</u>	<u>(270,005)</u>	
Total	<u>5,524,039</u>	<u>200,839</u>	<u>5,724,878</u>
EXPENSES:			
Program services:			
Program service grants (<i>Note 8</i>)	<u>579,500</u>		<u>579,500</u>
Total program services	579,500		579,500
Management and general	186,905		186,905
Blue Bird Circle Resale Shop	809,739		809,739
Special events and Circle projects	<u>15,858</u>		<u>15,858</u>
Total expenses	<u>1,592,002</u>		<u>1,592,002</u>
CHANGES IN NET ASSETS	3,932,037	200,839	4,132,876
Net assets, beginning of year	<u>25,142,537</u>	<u>789,256</u>	<u>25,931,793</u>
Net assets, end of year	<u>\$ 29,074,574</u>	<u>\$ 990,095</u>	<u>\$ 30,064,669</u>

See accompanying notes to consolidated financial statements.

The Blue Bird Circle

Consolidated Statement of Activities for the year ended May 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Blue Bird Circle Resale Shop, net of consignment payments of \$309,930	\$ 436,905		\$ 436,905
Contributions	27,236	\$ 274,173	301,409
Other Circle projects and sales	17,338		17,338
Membership contributions	33,350		33,350
Net investment return	<u>742,943</u>	<u>31,397</u>	<u>774,340</u>
Total revenue	1,257,772	305,570	1,563,342
Net assets released from restrictions:			
Program expenditures	273,573	(273,573)	
Donor redesignations	<u>123,411</u>	<u>(123,411)</u>	
Total	<u>1,654,756</u>	<u>(91,414)</u>	<u>1,563,342</u>
EXPENSES:			
Program services:			
Program service grants (<i>Note 8</i>)	1,581,560		1,581,560
Clinic expenses	<u>2,723</u>		<u>2,723</u>
Total program services	1,584,283		1,584,283
Management and general	165,783		165,783
Blue Bird Circle Resale Shop	973,390		973,390
Special events and Circle projects	<u>57,581</u>		<u>57,581</u>
Total expenses	<u>2,781,037</u>		<u>2,781,037</u>
CHANGES IN NET ASSETS	(1,126,281)	(91,414)	(1,217,695)
Net assets, beginning of year	<u>26,268,818</u>	<u>880,670</u>	<u>27,149,488</u>
Net assets, end of year	<u>\$ 25,142,537</u>	<u>\$ 789,256</u>	<u>\$ 25,931,793</u>

See accompanying notes to consolidated financial statements.

The Blue Bird Circle

Consolidated Statements of Functional Expenses for the years ended May 31, 2021 and 2020

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>BLUE BIRD CIRCLE RESALE SHOP</u>	<u>SPECIAL EVENTS AND CIRCLE PROJECTS</u>	<u>2021 TOTAL EXPENSES</u>
Grant expense	\$ 579,500				\$ 579,500
Salaries and related expenses		\$ 60,691	\$ 375,374		436,065
Depreciation		22,609	203,480		226,089
Professional fees and contract services		64,222	46,560	\$ 5,375	116,157
Repair and maintenance		5,891	53,018		58,909
Supplies and equipment		8,272	27,995	10,317	46,584
Utilities		4,395	39,557		43,952
Insurance		14,628	25,181		39,809
Bank and credit card fees		2,448	26,164	166	28,778
Printing and postage		3,235	6,817		10,052
Other		514	5,593		6,107
Total expenses	<u>\$ 579,500</u>	<u>\$ 186,905</u>	<u>\$ 809,739</u>	<u>\$ 15,858</u>	1,592,002
Direct donor benefits of Fall luncheon					<u>27,405</u>
Total					<u>\$1,619,407</u>

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>BLUE BIRD CIRCLE RESALE SHOP</u>	<u>SPECIAL EVENTS AND CIRCLE PROJECTS</u>	<u>2020 TOTAL EXPENSES</u>
Grants	\$1,581,560				\$1,581,560
Salaries and related expenses		\$ 66,928	\$ 469,707		536,635
Depreciation		25,912	233,195		259,107
Professional fees and contract services		35,038	109,842	\$ 20,983	165,863
Repairs and maintenance		3,495	31,665		35,160
Supplies and equipment		3,714	15,734	26,989	46,437
Utilities		5,715	51,441		57,156
Insurance		6,020	31,132		37,152
Bank and credit card fees		11,174	24,086	2,404	37,664
Printing and postage		2,368	4,825	2,040	9,233
Other	2,723	5,419	1,763	5,165	15,070
Total expenses	<u>\$1,584,283</u>	<u>\$ 165,783</u>	<u>\$ 973,390</u>	<u>\$ 57,581</u>	<u>\$2,781,037</u>

See accompanying notes to consolidated financial statements.

The Blue Bird Circle

Consolidated Statements of Cash Flows for the years ended May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 4,132,876	\$ (1,217,695)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	226,089	259,107
Contributions restricted for permanent endowment	(100)	(600)
Net realized and unrealized gain on investments	(4,356,919)	(134,235)
Changes in operating assets and liabilities:		
Interest and other receivable	62,004	(52,086)
Contributions receivable	49,820	(46,622)
Prepaid expenses and other assets	37,918	(40,794)
Accounts	24,986	(21,718)
Consignments payable	10,318	(63,394)
Grants payable	(82,463)	70,950
Paycheck Protection Program refundable advance	(26,430)	118,060
Special event refundable advance	<u>(147,100)</u>	<u>130,270</u>
Net cash used by operating activities	<u>(69,001)</u>	<u>(998,757)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,439,305)	(4,538,185)
Proceeds from sale of investments	2,744,253	10,394,021
Net change in cash held as investments	63,180	242,942
Purchases of property and equipment	<u>(19,162)</u>	<u>(5,201,553)</u>
Net cash provided by investing activities	<u>348,966</u>	<u>897,225</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for permanent endowment	<u>100</u>	<u>600</u>
NET CHANGE IN CASH	280,065	(100,932)
Cash, beginning of year	<u>505,494</u>	<u>606,426</u>
Cash, end of year	<u>\$ 785,559</u>	<u>\$ 505,494</u>

See accompanying notes to consolidated financial statements.

The Blue Bird Circle

Notes to Consolidated Financial Statements for the years ended May 31, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Blue Bird Circle (the Circle) is a non-profit organization formed in 1923 whose purpose is to provide financial support to The Blue Bird Circle Clinic for Pediatric Neurology at Texas Children’s Hospital (the Clinic), the Blue Bird Circle Developmental Neurogenetics Laboratory (the Lab), the Blue Bird Circle Rett Center (the Rett Center), and the Blue Bird Circle Clinical Research Center (the Research Center). The Clinic, formerly the Blue Bird Seizure Clinic, was founded in 1949 by members of the Circle for the purposes of diagnosing and treating children with neurological disorders. It was the first pediatric neurology clinic in the South and one of only three in the nation. It operates successfully in association with two institutions in the Texas Medical Center in Houston.

Both the Clinic and the Research Center are operated in affiliation with Texas Children’s Hospital. The Lab and the Rett Center are both operated in affiliation with Baylor College of Medicine. The Clinic, Lab, Rett Center and Research Center are not controlled by the Circle and the assets, liabilities, net assets and activities of those organizations are not included in these financial statements.

The Circle raises funds primarily from donations, special events, operation of the Blue Bird Circle Resale Shop (the Shop), which resells clothing and furniture, and various other Circle projects. Donated services provided by the members of the Circle, which are not recognized in these financial statements, comprise virtually all the labor required for the Circle’s operations.

Blue Bird Foundation (the Foundation) was created in 1951 to build and manage an endowment to provide financial support for the programs of the Circle. The majority of the Foundation’s Board of Directors are appointed by the Board of Directors of the Circle.

Basis of consolidation – These financial statements include the assets, liabilities, net assets and activities of the Circle and the Foundation (collectively Blue Bird). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – The Circle and the Foundation are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. The Circle is classified as a public charity under §509(a)(2) and §170(b)(1)(A)(viii). The Foundation is classified as a Type I supporting organization under §509(a)(3).

Cash includes demand deposits and cash on hand, but excludes cash held for investment purposes. Bank deposits exceed the federally insured limit per depositor per institution. Cash held in investments is excluded from cash in the statement of cash flows.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted, if material, to estimate the present value of their estimated future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and a donor-by-donor analysis of balances. At May 31, 2021, all contributions receivable are expected to be collected within one year.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property and equipment are reported at cost if purchased or at fair value at the date of gift if donated. The Circle capitalizes additions and improvements that have a tangible future economic life and cost of more than \$5,000. Depreciation is provided using the straight-line method over estimated useful lives of 5 to 39 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Circle resale shop sales include sales of donated and consigned merchandise and are recognized net of sales tax and consignor commissions at the point in time when goods are sold in an amount that reflects the consideration the Circle expects to be entitled to in exchange for those goods. Payment is due at the time of purchase and the Circle does not provide financing. Consignor commissions and sales tax collected and the resulting consignors' commissions payable are recognized as liabilities when a consignment or taxable sale occurs. Consignments payable at May 31, 2021, 2020, and 2019 totaled \$49,735, \$39,417, and \$102,811, respectively. Merchandise held by the Shop under consignment contracts is not recorded as inventory in the statement of financial position.

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before Blue Bird is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Contributions received before conditions have been met are reported as refundable advances.

Special event revenue is the total amount paid by attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special events. Amounts received in advance are reported as a refundable advance until the event is held.

Donated materials, use of facilities and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have contributed significant amounts of time in connection with the Shop, the Clinic, and other Circle activities for which no amount has been recognized in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles. The hours contributed as volunteer services approximated 19,000 in 2021 and 27,000 in 2020.

Program service grants are recognized as expense at fair value when the Circle approves an unconditional commitment to a grant recipient. Conditional grants are recognized in the same manner when the conditions are met by the recipient. Commitments made but not yet funded are recognized as grants payable; amounts due in more than one year are discounted, if material, to estimate the present value of future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are made.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of building, information technology costs and improvements and occupancy costs are allocated based on square footage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent accounting pronouncement – Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, will require contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and will require disclosure about the measurement and use of types of contributed nonfinancial assets. The ASU will be effective for fiscal years beginning after June 15, 2021 and requires retrospective application.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of May 31 comprise the following:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 785,559	\$ 505,494
Interest and other receivable		62,004
Contributions receivable	18,330	68,150
Investments	<u>24,057,752</u>	<u>20,068,961</u>
Total financial assets	<u>24,861,641</u>	<u>20,704,609</u>
Less financial assets not available for general expenditure:		
Endowment investments	(974,495)	(789,256)
Board-designated endowment investments, net of distribution for next year	<u>(21,678,325)</u>	<u>(18,877,141)</u>
Total financial assets available for general expenditure	<u>\$ 2,208,821</u>	<u>\$ 1,038,212</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Blue Bird considers all expenditures related to its ongoing activities of providing services at the Clinic, approving grants for operation and research, the daily operations of the Shop, and capital improvements, to be general expenditures.

The Foundation’s Board of Directors has designated approximately \$22 million for support of the Circle. These funds are invested for long-term appreciation and current income, but remain available to be spent at the Board of Directors’ discretion. The Foundation also has at its disposal a \$10,000,000 demand line of credit with a banking institution, which it entered into in December 2020. The line of credit is secured by Foundation investments, has no maturity date, and bears interest at the bank’s prime plus 1.25%. There is no outstanding balance May 31, 2021.

In March 2020, the World Health Organization declared a pandemic related to the global outbreak of the COVID-19 virus and a national emergency was declared in the United States. In fiscal year 2020, Blue Bird temporarily closed the resale shop and postponed in-person events. In fiscal year 2021, Blue Bird was closed for 3½ months and reopened on September 20, 2020 for a limited number of days each week. Business disruption caused by the pandemic reduced resale shop revenue. The extent of the continued impact of the pandemic on operational and financial performance will depend on developments such as the duration of the outbreak, and the impact on Blue Bird’s customers, employees, and donors, all of which cannot be predicted. To mitigate the impact of the business disruption, Blue Bird applied for and received funds through the Small Business Administration’s Paycheck Protection Program (PPP).

In April 2020, the Circle received a \$118,060 PPP loan. Forgiveness of the loan was received in April 2021, and the amount was recognized as a contribution as the Circle met the eligibility requirements and used the loan to fund qualified payroll and other eligible costs. In March 2021, the Circle received a Second Draw PPP loan of \$91,630, which is considered to be a conditional contribution as it is to fund qualified payroll and other eligible costs. The Second Draw PPP loan has not been recognized as revenue because the Circle has not received forgiveness as of May 31, 2021 and is recorded as a refundable advance. Although the Circle expects the loan to be forgiven, there is no assurance that forgiveness will be granted. Any amounts not forgiven, if any, bear interest at 1% and may be repaid over 5 years.

NOTE 3 – INVESTMENTS

Investments at May 31, 2021 consist of the following:

	<u>OTHER INVESTMENTS</u>	<u>ENDOWMENT INVESTMENTS</u>	<u>TOTAL</u>
Exchange-traded funds		\$ 10,824,316	\$ 10,824,316
Hedge funds		3,868,855	3,868,855
Mutual funds		3,257,428	3,257,428
Domestic equity securities		2,525,919	2,525,919
U. S. Treasury notes and bonds		1,239,035	1,239,035
Corporate bonds		1,186,413	1,186,413
Cash	\$ 1,699	940,497	942,196
Mortgage-backed securities		210,357	210,357
Other	<u>3,233</u>		<u>3,233</u>
Total investments	<u>\$ 4,932</u>	<u>\$ 24,052,820</u>	<u>\$ 24,057,752</u>

Investments at May 31, 2020 consist of the following:

	<u>OTHER INVESTMENTS</u>	<u>ENDOWMENT INVESTMENTS</u>	<u>TOTAL</u>
Exchange-traded funds		\$ 7,700,844	\$ 7,700,844
Hedge funds		3,815,067	3,815,067
Mutual funds		3,046,947	3,046,947
Domestic equity securities		1,776,889	1,776,889
U. S. Treasury notes and bonds		1,095,851	1,095,851
Corporate bonds		1,284,871	1,284,871
Cash	\$ 24,331	981,045	1,005,376
Mortgage-backed securities		339,883	339,883
Other	<u>3,233</u>	<u> </u>	<u>3,233</u>
Total investments	<u>\$ 27,564</u>	<u>\$ 20,041,397</u>	<u>\$ 20,068,961</u>

Cash deposits in excess of Federal Deposit Insurance Corporation limits are exposed to custodial risk. Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. 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 date. Investments for which value is measured at net asset value per share (or its equivalent) using the practical expedient, (NAVPE), are not required to be categorized in the fair value hierarchy. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at May 31, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>NAVPE</u>	<u>TOTAL</u>
Investments:				
Exchange-traded funds:				
International	\$ 5,521,311			\$ 5,521,311
Domestic	5,303,005			5,303,005
Mutual funds:				
Domestic bond	1,700,693			1,700,693
International equity	887,070			887,070
Real assets	669,665			669,665
Debt securities:				
U. S. Treasury notes and bonds		\$ 1,239,035		1,239,035
Domestic corporate bonds		1,186,413		1,186,413
Mortgage-backed securities		210,357		210,357
Domestic equity securities	<u>2,525,919</u>			<u>2,525,919</u>
Total	16,607,663	2,635,805		19,243,468
Investments measured at net asset value using the practical expedient			<u>\$ 3,868,855</u>	<u>3,868,855</u>
Total assets measured at fair value	<u>\$ 16,607,663</u>	<u>\$ 2,635,805</u>	<u>\$ 3,868,855</u>	<u>\$ 23,112,323</u>

Assets measured at fair value at May 31, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>NAVPE</u>	<u>TOTAL</u>
Investments:				
Exchange-traded funds:				
International	\$ 3,858,804			\$ 3,858,804
Domestic	3,842,040			3,842,040
Mutual funds:				
Domestic bond	2,446,013			2,446,013
International equity	600,934			600,934
Debt securities:				
U. S. Treasury notes and bonds		\$ 1,095,851		1,095,851
Domestic corporate bonds		1,284,871		1,284,871
Mortgage-backed securities		339,883		339,883
Domestic equity securities	1,776,889			1,776,889
Other	<u>3,233</u>			<u>3,233</u>
Total	12,527,913	2,720,605		15,248,518
Investments measured at net asset value using the practical expedient			<u>\$ 3,815,067</u>	<u>3,815,067</u>
Total assets measured at fair value	<u>\$ 12,527,913</u>	<u>\$ 2,720,605</u>	<u>\$ 3,815,067</u>	<u>\$ 19,063,585</u>

STRATEGY	FAIR VALUE DETERMINED USING NET ASSET VALUE AT MAY 31, 2021	FAIR VALUE DETERMINED USING NET ASSET VALUE AT MAY 31, 2020	NUMBER OF FUND YEARS	REDEMPTION TERMS	REDEMPTION RESTRICTIONS
Private equity – diversified strategies	\$1,679,135	\$1,488,150	2 – 2021 and 2020	One fund quarterly with 20 days’ notice; one fund daily.	One fund has a gate at 5% of fund level NAV, a lock-up period until 2027, and an unfunded commitment at May 31, 2021 of \$421,000.
Hedge fund – multi-strategy	1,057,068	984,226	1 – 2021 and 2020	Quarterly with 95 days’ notice.	Gate at 25% of fund level NAV.
Hedge fund – long-term capital appreciation	851,039	743,724	1 – 2021 and 2020	Monthly with 1 days’ notice.	None.
Hedge fund – real estate fixed-income	<u>281,613</u>	<u>598,967</u>	1 – 2021 and 2020	Quarterly with 95 days’ notice.	None.
Total investments measured at NAV using the practical expedient	<u>\$3,868,855</u>	<u>\$3,815,067</u>			

At May 31, 2021, the Foundation had an unfunded commitment of approximately \$421,000.

Valuation methods used for assets measured at fair value are as follows:

- *Exchange-traded funds* and *equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value of shares held.
- *Debt securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.
- *Hedge funds* use net asset value per share (or its equivalent) to determine the fair value of the investment in the fund, which does not have a readily determinable fair value.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Blue Bird believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 303,670	\$ 303,670
Building and leasehold improvements	6,217,513	6,064,072
Equipment	<u>346,693</u>	<u>491,726</u>
Total property and equipment, at cost	6,867,876	6,859,468
Accumulated depreciation	<u>(1,378,706)</u>	<u>(1,152,617)</u>
Property and equipment, net	<u>\$ 5,489,170</u>	<u>\$ 5,706,851</u>

NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are as follows:

	<u>2021</u>	<u>2020</u>
Board-designated endowment	\$ 23,078,325	\$ 19,252,141
Undesignated	507,079	183,545
Property and equipment, net	<u>5,489,170</u>	<u>5,706,851</u>
Total net assets without donor restrictions	<u>\$ 29,074,574</u>	<u>\$ 25,142,537</u>

Blue Bird does not have a specific policy in regard to establishing board-designated reserves. However, the Board of Directors may designate excess cash flows for capital reserves, specific projects, or endowments, as deemed prudent.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject expenditures for a specified purpose:		
Clinic operations	\$ 15,600	
Endowments subject to spending policy and appropriation:		
Lillian Rockwell Endowment Fund – general endowment	451,009	\$ 365,315
John T. Sprouse and Estelle Yeargrin Sprouse Endowment Fund – research	290,401	235,224
Alice and David C. Bintliff Fund – special needs for Clinic patients	<u>233,085</u>	<u>188,717</u>
Total net assets with donor restrictions	<u>\$ 990,095</u>	<u>\$ 789,256</u>

NOTE 8 – SUPPORT OF CLINIC, RESEARCH CENTER, LAB, AND RETT CENTER

Program service grants made by the Circle to the Clinic, Research Center, Lab, and Rett Center are as follows:

	<u>2021</u>	<u>2020</u>
Blue Bird Circle Rett Center	\$ 223,500	\$ 423,411
Blue Bird Circle Developmental Neurogenetics Laboratory	180,000	420,000
Blue Bird Circle Clinical Research Center	176,000	733,149
Other		<u>5,000</u>
Total	<u>\$ 579,500</u>	<u>\$ 1,581,560</u>

NOTE 9 – ENDOWMENT

Blue Bird’s endowment consists of donor-restricted endowment funds that are maintained in accordance with explicit donor stipulations and board-designated endowment funds of the Foundation. The purpose of the endowment is to provide long-term financial support to the programs of the Circle. Donor-restricted endowment funds are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). Blue Bird’s Board of Directors has interpreted TUPMIFA as allowing Blue Bird to appropriate for expenditure or accumulate as much of a donor-restricted endowment fund as Blue Bird determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund was established, subject to explicit donor stipulations. As a result of the interpretation, Blue Bird classifies the original value of gifts donated to the donor-restricted endowment funds as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment funds are classified as *net assets with donor restrictions* accumulated net investment return until those amounts are appropriated for expenditure by Blue Bird in a manner consistent with the standard of prudence prescribed by TUPMIFA. However, TUPMIFA does not preclude Blue Bird from spending below the amount required to be maintained in perpetuity subject to prudent standards. An endowment fund is *underwater* if the fair value of the fund’s investments fall below the amount required to be maintained in perpetuity because of declines in the fair value of investments and/or continued appropriation and spending in accordance with prudent measures. There were no *underwater* funds at May 31, 2021 and 2020.

Changes in endowment net assets are as follows:

		<u>WITH DONOR RESTRICTIONS</u>		
	<u>BOARD- DESIGNATED ENDOWMENT</u>	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	<u>TOTAL</u>
Endowment net assets, May 31, 2019	\$ 24,424,513	\$ 67,481	\$ 813,189	\$ 25,305,183
Net investment return	629,794	31,397		661,191
Contributions and other additions			600	600
Donor redesignation		(9,582)	(113,829)	(123,411)
Distributions	(5,000,000)			(5,000,000)
Appropriation of Foundation assets held in trust for Circle	(789,256)			(789,256)
Expenses	<u>(12,910)</u>			<u>(12,910)</u>
Endowment net assets, May 31, 2020	<u>19,252,141</u>	<u>89,296</u>	<u>699,960</u>	<u>20,041,397</u>
Net investment return	4,518,443	185,139		4,703,582
Contributions and other additions			100	100
Distributions	(675,000)			(675,000)
Expenses	<u>(17,259)</u>			<u>(17,259)</u>
Endowment net assets, May 31, 2021	<u>\$ 23,078,325</u>	<u>\$ 274,435</u>	<u>\$ 700,060</u>	<u>\$ 24,052,820</u>

Investment Policies and Strategy

The endowment assets of Blue Bird are maintained in investment accounts which are managed by independent investment managers that follow guidance provided in an investment policy approved by the Board of Directors of the Circle and the Foundation, respectively. The performance objectives are to safeguard assets and preserve the real purchasing power of assets while earning investment returns that are commensurate with the Circle's and Foundation's risk tolerance and are sufficient to meet their operational requirements. The target performance objective is to seek returns on investments that are in excess of the rate of inflation taking into consideration the Circle's and Foundation's spending policies. The Circle and the Foundation seek to control risk and reduce volatility in the investment portfolio through diversification.

The Circle's investments were liquidated in November 2019, and the donor-restricted endowment assets are now managed as part of the Foundation's investments.

The Foundation seeks to achieve growth in its assets in excess of inflation by emphasizing long-term investment fundamentals in structuring its endowment portfolio. The majority of the endowment funds are invested in equity and equity-like securities. A limited portion of the endowment portfolio can be invested in alternative investments designed to provide the flexibility needed to realize market gains and benefits not withstanding economic cycles. Fixed-income securities are used to lower the short-term volatility of the endowment portfolio and to provide income stability.

Spending Policy

The Circle appropriates for distribution from the donor-restricted endowment funds each year up to 5% of the average market value of the fund under management for the preceding twelve quarters (beginning July 31 of the prior year and preceding quarters). In conjunction with the authorization of the annual distribution, the Board of Directors of the Circle will review this policy in light of current and expected market conditions and rate of inflation. Other distributions may be made from time to time at the discretion of the Board of Directors of the Circle.

The Foundation's Board of Directors approves distributions to the Circle from the board-designated endowment funds on an annual basis based on the funding needs of the Circle.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 27, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

The Blue Bird Circle

Consolidating Statement of Financial Position as of May 31, 2021

	<u>CIRCLE</u>	<u>FOUNDATION</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
ASSETS				
Cash	\$ 785,559			\$ 785,559
Contributions receivable	19,850		\$ (1,520)	18,330
Prepaid expenses and other assets	10,987			10,987
Beneficial interest in assets of the Foundation	974,395		(974,395)	
Investments	3,233	\$ 24,054,519		24,057,752
Property and equipment, net	<u>5,489,170</u>	<u> </u>	<u> </u>	<u>5,489,170</u>
TOTAL ASSETS	<u>\$ 7,283,194</u>	<u>\$ 24,054,519</u>	<u>\$ (975,915)</u>	<u>\$ 30,361,798</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	\$ 58,143	\$ 3,320	\$ (1,520)	\$ 59,943
Consignments payable	49,735			49,735
Grants payable	95,821			95,821
Paycheck Protection Program refundable advance	91,630			91,630
Funds held in trust for the Circle	<u> </u>	<u>974,395</u>	<u>(974,395)</u>	<u> </u>
Total liabilities	<u>295,329</u>	<u>977,715</u>	<u>(975,915)</u>	<u>297,129</u>
Net assets:				
Without donor restrictions	5,997,770	23,076,804		29,074,574
With donor restrictions	<u>990,095</u>	<u> </u>		<u>990,095</u>
Total net assets	<u>6,987,865</u>	<u>23,076,804</u>		<u>30,064,669</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,283,194</u>	<u>\$ 24,054,519</u>	<u>\$ (975,915)</u>	<u>\$ 30,361,798</u>

The Blue Bird Circle

Consolidating Statement of Financial Position as of May 31, 2020

	<u>CIRCLE</u>	<u>FOUNDATION</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
ASSETS				
Cash	\$ 505,494			\$ 505,494
Interest and other receivable	62,004			62,004
Contributions receivable	68,150			68,150
Prepaid expenses and other assets	48,905			48,905
Beneficial interest in assets of the Foundation	789,256		\$ (789,256)	
Investments	17,412	\$ 20,051,549		20,068,961
Property and equipment, net	<u>5,706,851</u>			<u>5,706,851</u>
TOTAL ASSETS	<u>\$ 7,198,072</u>	<u>\$ 20,051,549</u>	<u>\$ (789,256)</u>	<u>\$ 26,460,365</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	\$ 24,805	\$ 10,152		\$ 34,957
Construction payable	10,754			10,754
Consignments payable	39,417			39,417
Grants payable	178,284			178,284
Paycheck Protection Program refundable advance	118,060			118,060
Special event refundable advance	147,100			147,100
Funds held in trust for the Circle		789,256	\$ (789,256)	
Total liabilities	<u>518,420</u>	<u>799,408</u>	<u>(789,256)</u>	<u>528,572</u>
Net assets:				
Without donor restrictions	5,890,396	19,252,141		25,142,537
With donor restrictions	<u>789,256</u>			<u>789,256</u>
Total net assets	<u>6,679,652</u>	<u>19,252,141</u>		<u>25,931,793</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,198,072</u>	<u>\$ 20,051,549</u>	<u>\$ (789,256)</u>	<u>\$ 26,460,365</u>

The Blue Bird Circle

Consolidating Statement of Activities for the year ended May 31, 2021

	<u>CIRCLE</u>	<u>FOUNDATION</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
REVENUE:				
Blue Bird Circle Resale Shop, net	\$ 356,489			\$ 356,489
Grant from the Foundation	675,000		\$ (675,000)	
Contributions	320,519			320,519
Blue Bird Fall luncheon	152,475			152,475
Direct donor benefits of Fall luncheon	(27,405)			(27,405)
Other Circle projects and sales	143,908		(1,000)	142,908
Membership contributions	46,566			46,566
Change in beneficial interest in assets of the Foundation	185,139	\$ (185,139)		
Net investment return	<u>29,744</u>	<u>4,703,582</u>		<u>4,733,326</u>
Total revenue	<u>1,882,435</u>	<u>4,518,443</u>	<u>(676,000)</u>	<u>5,724,878</u>
EXPENSES:				
Program services:				
Contribution to the Circle Program service grants	<u>579,500</u>	675,000	(675,000)	<u>579,500</u>
Total program services	579,500	675,000	(675,000)	579,500
Management and general	169,126	18,780	(1,000)	186,906
Blue Bird Circle Resale Shop	809,738			809,738
Special events and Circle projects	<u>15,858</u>			<u>15,858</u>
Total expenses	<u>1,574,222</u>	<u>693,780</u>	<u>(676,000)</u>	<u>1,592,002</u>
CHANGES IN NET ASSETS	308,213	3,824,663	0	4,132,876
Net assets, beginning of year	<u>6,679,652</u>	<u>19,252,141</u>	<u>0</u>	<u>25,931,793</u>
Net assets, end of year	<u>\$ 6,987,865</u>	<u>\$ 23,076,804</u>	<u>\$ 0</u>	<u>\$ 30,064,669</u>

The Blue Bird Circle

Consolidating Statement of Activities for the year ended May 31, 2020

	<u>CIRCLE</u>	<u>FOUNDATION</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
REVENUE:				
Blue Bird Circle Resale Shop, net	\$ 436,905			\$ 436,905
Grant from the Foundation	5,789,256		\$ (5,789,256)	
Contributions	301,409			301,409
Other Circle projects and sales	17,338			17,338
Membership contributions	33,350			33,350
Net investment return	<u>144,546</u>	<u>\$ 629,794</u>		<u>774,340</u>
Total revenue	<u>6,722,804</u>	<u>629,794</u>	<u>(5,789,256)</u>	<u>1,563,342</u>
EXPENSES:				
Program services:				
Contribution to the Circle		5,789,256	(5,789,256)	
Program service grants	1,581,560			1,581,560
Clinic expenses	<u>2,723</u>			<u>2,723</u>
Total program services	1,584,283	5,789,256	(5,789,256)	1,584,283
Management and general	152,873	12,910		165,783
Blue Bird Circle Resale Shop	973,390			973,390
Special events and Circle projects	<u>57,581</u>			<u>57,581</u>
Total expenses	<u>2,768,127</u>	<u>5,802,166</u>	<u>(5,789,256)</u>	<u>2,781,037</u>
CHANGES IN NET ASSETS	3,954,677	(5,172,372)	0	(1,217,695)
Net assets, beginning of year	<u>2,724,975</u>	<u>24,424,513</u>	<u>0</u>	<u>27,149,488</u>
Net assets, end of year	<u>\$ 6,679,652</u>	<u>\$ 19,252,141</u>	<u>\$ 0</u>	<u>\$ 25,931,793</u>
