

THE BAPTIST FOUNDATION OF ALABAMA

Financial Statements

December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Baptist Foundation of Alabama
Montgomery, Alabama

We have audited the accompanying financial statements of The Baptist Foundation of Alabama, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses and 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 the 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 financial position of The Baptist Foundation of Alabama as of December 31, 2020 and 2019, 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.

BMSS, LLC

Birmingham, Alabama
July 30, 2021

THE BAPTIST FOUNDATION OF ALABAMA
 Statements of Financial Position
 December 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 1,450,868	\$ 970,111
Accounts receivable	12,506	22,018
Investments	71,410,551	63,068,377
Investments held for others	213,760,688	191,531,208
Property and equipment, net	1,755,843	1,829,261
	\$ 288,390,456	\$ 257,420,975
 Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 926,065	\$ 819,379
Investments held for others	213,760,688	191,531,208
	214,686,753	192,350,587
Net assets		
Without donor restrictions	30,880,261	26,717,237
With donor restrictions	42,823,442	38,353,151
	73,703,703	65,070,388
	\$ 288,390,456	\$ 257,420,975

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statement of Activities

Year ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	\$ 1,795,991	\$ 738,325	\$ 2,534,316
Cooperative program	135,086	-	135,086
Investment and administrative fee income	1,042,178	-	1,042,178
Investment income	3,481,634	5,098,119	8,579,753
Trust and other income	46,022	-	46,022
Forgiveness of debt income	294,448	-	294,448
Net assets released from restriction	1,366,153	(1,366,153)	-
Total support and revenue	<u>8,161,512</u>	<u>4,470,291</u>	<u>12,631,803</u>
Expenses			
Program services	2,368,189	-	2,368,189
Supporting activities	1,630,299	-	1,630,299
Total expenses	<u>3,998,488</u>	<u>-</u>	<u>3,998,488</u>
Change in net assets	4,163,024	4,470,291	8,633,315
Net assets - beginning of year	<u>26,717,237</u>	<u>38,353,151</u>	<u>65,070,388</u>
Net assets - end of year	<u>\$ 30,880,261</u>	<u>\$ 42,823,442</u>	<u>\$ 73,703,703</u>

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statement of Activities
Year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	\$ 306,268	\$ 2,641,227	\$ 2,947,495
Cooperative program	136,203	-	136,203
Investment and administrative fee income	1,022,171	-	1,022,171
Investment income	2,921,498	4,133,568	7,055,066
Trust and other income	39,612	-	39,612
Net assets released from restriction	1,207,011	(1,207,011)	-
Total support and revenue	<u>5,632,763</u>	<u>5,567,784</u>	<u>11,200,547</u>
Expenses			
Program services	2,566,632	-	2,566,632
Supporting activities	1,590,854	-	1,590,854
Total expenses	<u>4,157,486</u>	<u>-</u>	<u>4,157,486</u>
Change in net assets	1,475,277	5,567,784	7,043,061
Net assets - beginning of year	<u>25,241,960</u>	<u>32,785,367</u>	<u>58,027,327</u>
Net assets - end of year	<u>\$ 26,717,237</u>	<u>\$ 38,353,151</u>	<u>\$ 65,070,388</u>

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statement of Functional Expenses

Year ended December 31, 2020

	Program Services			Supporting Activities			Total Expenses
	Trust Administration	Eldercare	Total Programming	General and Administrative	Development	Total Supporting	
Depreciation	\$ 29,866	\$ 11,301	\$ 41,167	\$ 16,951	\$ 22,601	\$ 39,552	\$ 80,719
Disbursements for beneficiaries and others	1,520,412	-	1,520,412	-	-	-	1,520,412
Office expense	80,086	32,226	112,312	70,689	67,998	138,687	250,999
Professional	57,972	10	57,982	75,051	75,521	150,572	208,554
Promotion and public relations	-	2,439	2,439	1,263	13,575	14,838	17,277
Salaries and benefits	480,054	144,667	624,721	505,881	762,553	1,268,434	1,893,155
Travel	4,796	4,360	9,156	3,280	14,936	18,216	27,372
	<u>\$ 2,173,186</u>	<u>\$ 195,003</u>	<u>\$ 2,368,189</u>	<u>\$ 673,115</u>	<u>\$ 957,184</u>	<u>\$ 1,630,299</u>	<u>\$ 3,998,488</u>

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statement of Functional Expenses

Year ended December 31, 2019

	Program Services			Supporting Activities			Total Expenses
	Trust Administration	Eldercare	Total Programming	General and Administrative	Development	Total Supporting	
Depreciation	\$ 31,052	\$ 11,440	\$ 42,492	\$ 15,528	\$ 23,698	\$ 39,226	\$ 81,718
Disbursements for beneficiaries and others	1,634,323	-	1,634,323	-	-	-	1,634,323
Office expense	90,918	33,316	124,234	82,874	76,002	158,876	283,110
Professional	56,903	30	56,933	78,263	30,439	108,702	165,635
Promotion and public relations	-	3,150	3,150	3,633	28,400	32,033	35,183
Salaries and benefits	528,277	161,127	689,404	477,465	720,557	1,198,022	1,887,426
Travel	9,708	6,388	16,096	11,969	42,026	53,995	70,091
	<u>\$ 2,351,181</u>	<u>\$ 215,451</u>	<u>\$ 2,566,632</u>	<u>\$ 669,732</u>	<u>\$ 921,122</u>	<u>\$ 1,590,854</u>	<u>\$ 4,157,486</u>

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statements of Cash Flows

Years ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 8,633,315	\$ 7,043,061
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	80,719	81,718
Gain on disposal of property and equipment	-	(3,689)
Forgiveness of debt income	(294,448)	-
Investment income	(8,727,616)	(7,055,066)
Contributions restricted for investment in permanent endowment	(595,230)	(2,605,557)
Changes in operating assets and liabilities		
Accounts receivable	9,512	(9,846)
Accounts payable and accrued expenses	106,686	69,394
Net cash used in operating activities	(787,062)	(2,479,985)
Investing Activities		
Proceeds from sale of investments	3,518,025	5,097,499
Purchases of investments	(3,132,583)	(5,899,658)
Proceeds from disposal of property and equipment	-	4,500
Purchases of property and equipment	(7,301)	(77,359)
Net cash provided by (used in) investing activities	378,141	(875,018)
Financing Activities		
Proceeds from contributions restricted for investment in permanent endowment	595,230	2,605,557
Proceeds from long-term debt	294,448	-
Net cash provided by financing activities	889,678	2,605,557
Net increase (decrease) in cash and cash equivalents	480,757	(749,446)
Cash and cash equivalents - beginning of year	970,111	1,719,557
Cash and cash equivalents - end of year	\$ 1,450,868	\$ 970,111

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Baptist Foundation of Alabama (the Foundation) is a not-for-profit corporation, organized pursuant to the requirements of the Alabama Nonprofit Corporation Act. The Foundation was organized for the purposes of encouraging the making of gifts, benefactions, and other donations for the advancement, promotion, endowment, and maintenance of all institutions and agencies, whether religious, educational, eleemosynary, missionary, promotional, literary, or informational, recognized by and under the direction of either the Alabama Baptist State Convention (the Convention) or its affiliated local churches and district associations in carrying out their enterprises and undertakings.

Basis of Accounting

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the financial statements, management evaluated subsequent events through July 30, 2021, the date the financial statements were available to be issued.

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 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 reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The Foundation reports contributions held for specified beneficiaries for which the Foundation has not been granted variance power as an asset and a liability. In addition, the Foundation reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions are those currently available at the direction of the Board for use in the Foundation's operations, invested in property and equipment, or designated by the Board of Directors or management to function as endowments.

Net assets with donor restrictions are those with donor stipulations for specific operating purposes, time restrictions or requirements to be held in perpetuity.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition

Revenue from performance obligations can be satisfied at a point in time or satisfied over time. The Foundation's management services revenue and administrative services revenue is a result of performance obligations satisfied at a point in time, when services performed for the individuals are complete as of the month and quarter ended, respectively. The management services revenue and administrative services revenue is reported at the net realizable amounts from customers. In addition, the Foundation's contracts do not contain variable consideration and contract modifications are generally minimal. The Foundation's contracts have a single performance obligation as the promise to transfer the services is not separately identifiable from other promises in the contracts and, therefore, not distinct.

Cash and Cash Equivalents

The Foundation considers all instruments with an original maturity of three months or less to be cash and cash equivalents. Cash equivalents consist of money market securities stated at fair value which approximates cost. Cash and cash equivalents are maintained at financial institutions, and, at times, balances may exceed federally insured limits. These amounts represent actual account balances held by financial institutions at the end of the period, and unlike the balances reported in the financial statements, the account balances do not reflect timing delays inherent in reconciling items such as outstanding checks and deposits in transit. The Foundation has never experienced any losses related to these balances.

Receivables

The Foundation reports receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance or against earnings. Based on management's review, no allowance for doubtful accounts was considered necessary at December 31, 2020 or 2019.

Property and Equipment

Property and equipment are carried at cost or, if donated, the approximate fair value at the date of donation, less accumulated depreciation and include expenditures which substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renovations are charged to income as incurred. When property and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on the disposition is credited or charged to income. The Foundation provides for depreciation of property and equipment using the straight-line method designed to amortize costs over the following estimated useful lives: buildings and improvements, 7 to 39 years; furniture and fixtures, 3 to 10 years; and automobiles, 5 years.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

The Foundation's investments consist primarily of funds invested in fixed-income (debt) and equity securities and alternative investments. Debt and equity investments with a readily determinable fair value are measured at fair value as of the statement of financial position date, and changes in fair value are recognized in the statement of activities as they occur. Equity securities that do not have a readily determinable fair value are carried at cost subject to adjustments for any observable market transactions on the same or similar instruments. All equity securities are evaluated at least annually for impairment.

Many of the Foundation's investments are converted to units of common funds administered by the Foundation. These common funds include the assets of charitable trusts and other specified types of assets authorized by law to be jointly invested, as well as general endowment funds. Investments held for others include obligations consisting of units of these common funds, as well as other specifically identified assets. These assets are segregated from general assets of the Foundation.

The units of common funds included in the Foundation's investments are reported at their net asset value, equal to the Foundation's pro-rata share of the total fair value of the underlying securities comprising the common funds. The common funds that are managed by the Foundation are exempt from registration requirements of both state and federal securities law.

The Foundation invests in several alternative investments for further diversification of its common funds. Alternative investments are more illiquid than traditional investments, often taking three to twelve months or more to redeem, pending the completion of the final year-end close of the fund.

The Board of Directors and management of the Foundation have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent donor stipulations to the contrary. As a result of this interpretation, the Foundation includes in amounts required to be maintained in perpetuity (a) the original value of gifts donated to the endowment funds, and (b) the value of subsequent contributions to the endowment funds and accumulations to the permanent endowment funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation 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 Foundation and the donor-restricted endowment funds, (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 Foundation, and (7) the investment policies of the Foundation.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments - Continued

The Investment Committee is charged with the fiduciary responsibility of preserving and augmenting the value of the endowments, included in investments, thereby sustaining the ability to generate financial support to further the mission of the Foundation. The Foundation 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that cover the spending policy payout percentage (generally 4.25% at December 31, 2020 and 2019; adjusted to 2.40% and 2.30% at December 31, 2020 and 2019, respectively, for endowments with deficiencies), administrative expenses, plus the rate of inflation while assuming a moderate level of investment risk.

Irrevocable Trust Agreements

The Foundation's right to remainder interests under irrevocable trust agreements are recognized as contributions with donor restrictions upon receipt of assets funding such agreements. The Foundation also recognizes contributions related to certain trusts that do not provide for specific beneficiaries and trust agreements that grant the Foundation variance power as related to the trust assets and/or income.

Investments Held for Others

Investments held for others include resources held and managed by the Foundation in a fiduciary capacity for their respective beneficiaries. The Foundation is authorized to serve as trustee or agent for any institution or agency affiliated directly or indirectly with the Alabama Baptist State Convention. In addition, the Foundation serves as trustee for certain charitable trusts through which, for a period of time, trust income is distributed to the grantor or other non-charitable beneficiaries, and all, or a predetermined percentage, of the trust assets are designated for a qualified charitable purpose. The Foundation also serves as executor for various estates and custodial accounts that provide for a portion, or all, of the estate's assets to be given to an institution or agency affiliated directly or indirectly with the Alabama Baptist State Convention, the Foundation, or any other organization which has a primary purpose that is consistent with the purpose of the Convention or Foundation. Distributions of assets to the Foundation, if any, received through these estates are recorded as contributions at fair value when the estate is declared valid.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Concentration of Credit Risk

The Foundation maintains various investment accounts with a national investment firm to facilitate the investment, trading, and safekeeping of the various trusts' assets. In management's opinion, the safekeeping of these assets is adequately insured by the Securities Investor Protection Corporation (SIPC) and through supplemental insurance provided by the investment firm.

The Foundation investment allocations are predetermined by the Investment Committee and communicated to its investment brokerage firm. At December 31, 2020 and 2019, respectively, approximately 12% and 15% of total investments were invested in a limited partnership managed by one private equity firm.

Paycheck Protection Program (PPP) Loan

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act, among other things, appropriated funds for the SBA PPP loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

In April 2020, the Foundation received a PPP loan totaling \$294,448. These PPP proceeds were used to pay eligible expenses prior to December 31, 2020, and the Foundation has recognized contribution revenue totaling this amount as management concluded the conditions for release have been substantially met.

The Foundation has elected to account for the PPP loan as a conditional contribution in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-605. Accordingly, the proceeds from the PPP loan are initially recognized as a refundable allowance until the conditions for forgiveness are substantially met. The Foundation recognizes contribution revenue over time as it incurs qualifying PPP expenses, assuming all other conditions are substantially met.

Income Taxes

The Foundation is organized as a not-for-profit corporation under the Alabama Nonprofit Corporation Act. Additionally, the Foundation has been granted tax-exempt status by the Internal Revenue Service for income tax purposes. The Foundation is subject to unrelated business income tax (UBIT) only if it engages in activities subject to the UBIT regulations. Tax positions are initially recognized in the financial statements when it is more likely than not that the position will be sustained upon examination by the tax authorities. The Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements as of December 31, 2020 and 2019 based on an assessment of many factors including experience and interpretations of applicable tax laws.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value

The established framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price the Foundation would expect to receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs which are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 2 - LIQUIDITY AND AVAILABILITY

The following table reflects the Foundation's financial assets, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year. Such amounts include those set aside for long-term investing in the Board-designated endowment that could be drawn upon if the governing Board approves that action. However, amounts already appropriated from either the donor-restricted endowment or Board-designated endowment for general expenditure within one year have not been subtracted as unavailable. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, consisted of the following at December 31:

	2020	2019
Financial assets	\$ 286,634,613	\$ 255,591,714
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions		
Restricted by donor with purpose restrictions	1,311,387	1,187,326
Subject to appropriation and satisfaction of donor restrictions	41,512,055	37,165,825
Investments held for others	213,760,688	191,531,208
Board designations		
Endowment funds	5,307,795	4,835,839
Amounts set aside for:		
Operating reserves	1,654,269	1,439,523
Church estate stewardship	570,853	378,973
Church loans	1,570,572	1,534,774
	265,687,619	238,073,468
Financial assets available to meet cash needs for general expenditures within one year	\$ 20,946,994	\$ 17,518,246

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 3 - INVESTMENTS

Investments consisted of the following at December 31, 2020:

	Fair Value	Cost	Unrealized Appreciation
Cash and cash equivalents	\$ 37,471,697	\$ 37,455,309	\$ 16,388
Fixed income securities	53,143,093	51,952,458	1,190,635
Limited partnerships	94,729,515	86,620,384	8,109,131
Mutual funds	30,675,104	15,111,329	15,563,775
Marketable equity securities	64,436,696	48,591,841	15,844,855
Mortgages and notes receivable	1,639,951	1,639,951	-
Residential real estate	461,213	461,203	10
Timber and timberland	955,000	875,000	80,000
Other assets	1,325,087	116,595	1,208,492
Accrued income	333,883	333,883	-
	<u>\$ 285,171,239</u>	<u>\$ 243,157,953</u>	<u>\$ 42,013,286</u>

Investments consisted of the following at December 31, 2019:

	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Cash and cash equivalents	\$ 31,031,698	\$ 31,019,513	\$ 12,185
Fixed income securities	46,604,465	46,303,338	301,127
Limited partnerships	81,987,683	80,555,358	1,432,325
Mutual funds	51,848,918	37,121,930	14,726,988
Marketable equity securities	37,465,737	32,740,730	4,725,007
Mortgages and notes receivable	1,631,092	1,631,092	-
Residential real estate	464,513	469,503	(4,990)
Timber and timberland	1,948,800	1,868,800	80,000
Other assets	1,243,925	71,951	1,171,974
Accrued income	372,754	372,754	-
	<u>\$ 254,599,585</u>	<u>\$ 232,154,969</u>	<u>\$ 22,444,616</u>

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 3 - INVESTMENTS - Continued

Included in the accompanying statements of financial position under the following captions at December 31:

	<u>2020</u>	<u>2019</u>
Investments	\$ 71,410,551	\$ 63,068,377
Investments held for others	213,760,688	191,531,208
	<u>\$ 285,171,239</u>	<u>\$ 254,599,585</u>

Transactions affecting assets held for others consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Balance - beginning of year	\$ 191,531,208	\$ 187,984,604
Deposits and additions	12,527,568	10,014,487
Investment income	25,672,426	22,586,626
Disbursements for beneficiaries and other withdrawals	(15,970,514)	(29,054,509)
Balance - end of year	<u>\$ 213,760,688</u>	<u>\$ 191,531,208</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 696,687	\$ 696,687
Buildings and improvements	1,543,295	1,543,295
Furniture and fixtures	421,678	414,378
Automobiles	172,591	172,591
	<u>2,834,251</u>	<u>2,826,951</u>
Less accumulated depreciation	1,078,408	997,690
	<u>\$ 1,755,843</u>	<u>\$ 1,829,261</u>

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 5 - BOARD-DESIGNATED NET ASSETS

The Foundation's governing Board has designated, from net assets without donor restrictions of \$30,880,261 and \$26,717,237 at December 31, 2020 and 2019, respectively, net assets for the following purposes:

	<u>2020</u>	<u>2019</u>
Board-designated endowment funds		
Purchase of property and equipment	\$ 188,577	\$ 164,098
Disaster relief	32,523	29,812
Scholarships	144,909	132,799
General purposes	4,941,786	4,509,130
	<u>5,307,795</u>	<u>4,835,839</u>
Amounts set aside for:		
Operating reserves	1,654,269	1,439,523
Church estate stewardship	570,853	378,973
Church loans	1,570,572	1,534,774
	<u>3,795,694</u>	<u>3,353,270</u>
	<u>\$ 9,103,489</u>	<u>\$ 8,189,109</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes at December 31:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for a specific purpose		
Eldercare	\$ 411,813	\$ 328,717
Church loans	899,574	858,609
	<u>1,311,387</u>	<u>1,187,326</u>

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS - Continued

	2020	2019
Subject to the Foundation's spending policy and appropriation		
Net accumulated investment income and gains, which, once appropriated, are expendable to support:		
General purposes	\$ 3,656,673	\$ 2,405,926
Churches and associations	71,100	57,727
Children's home	351,900	196,946
Education	49,664	34,520
Eldercare	439,499	108,204
Missions	82,045	84,511
Scholarships	4,487,682	2,776,491
Other purposes	477,128	200,366
Investment in perpetuity, which, once appropriated, is expendable to support:		
General purposes	7,929,100	7,929,100
Churches and associations	89,328	89,328
Children's home	1,486,159	1,486,159
Education	131,143	131,143
Eldercare	2,442,260	2,442,123
Missions	885,193	830,787
Scholarships	15,959,925	15,457,795
Other purposes	2,973,256	2,934,699
	41,512,055	37,165,825
	\$ 42,823,442	\$ 38,353,151

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors and consisted of the following at December 31:

	2020	2019
Satisfaction of program restrictions	\$ 2,809	\$ 5,526
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	1,363,344	1,201,485
	\$ 1,366,153	\$ 1,207,011

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 7 - ENDOWMENT

The Foundation's endowment consists of individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowment). 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 and consisted of the following at December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 5,307,795	\$ -	\$ 5,307,795
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	31,896,364	31,896,364
Net accumulated investment income and gains	-	9,615,691	9,615,691
	\$ 5,307,795	\$ 41,512,055	\$ 46,819,850

Net assets associated with endowment funds consisted of the following at December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,835,839	\$ -	\$ 4,835,839
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	31,301,134	31,301,134
Net accumulated investment income and gains	-	5,864,691	5,864,691
	\$ 4,835,839	\$ 37,165,825	\$ 42,001,664

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 7 - ENDOWMENT - Continued

Changes in endowment net assets consisted of the following during the years ended December 31, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - December 31, 2018	\$ 4,543,542	\$ 31,678,957	\$ 36,222,499
Contributions	20,000	2,605,557	2,625,557
Investment losses	465,568	4,075,031	4,540,599
Appropriation of endowment assets for expenditure	(193,271)	(1,193,720)	(1,386,991)
Endowment net assets - December 31, 2019	4,835,839	37,165,825	42,001,664
Contributions	-	1,819,286	1,819,286
Investment income	665,116	5,010,102	5,675,218
Appropriation of endowment assets for expenditure	(193,160)	(2,483,158)	(2,676,318)
Endowment net assets - December 31, 2020	<u>\$ 5,307,795</u>	<u>\$ 41,512,055</u>	<u>\$ 46,819,850</u>

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6.00% to 8.00% annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation 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.

The Foundation's policy of appropriating for distribution each year is 4.25% of its endowment fund's average fair value over the prior 16 quarters through the calendar year end preceding the calendar year in which the distribution is planned. The percentage is decreased to 2.40% (2.30% during the year ended December 31, 2019) for endowments that have declined and are consequently considered deficient. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at the rate of inflation, currently an average of 2.00% to 3.00% annually, consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investments.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 7 - ENDOWMENT - Continued

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level necessary to maintain the purchasing power of the original gift plus additions. Deficiencies of this nature, called underwater endowment funds, resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Foundation’s Board of Directors. Underwater endowment funds consisted of the following at December 31:

	2020	2019
Fair value of assets	\$ 810,045	\$ 2,283,453
Original gift plus additions	2,284,308	2,497,724
	\$ (1,474,263)	\$ (214,271)

NOTE 8 - FAIR VALUE

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the methodologies used during the years ended December 31, 2020 or 2019.

- *Cash and Cash Equivalents:* Valued at amortized cost which approximates fair value.
- *Investment Securities:* Valued based on quoted market prices, when available, or market prices provided by recognized broker dealers. Securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. Government-sponsored enterprises and commercial paper are stated at cost plus accrued interest, which approximates fair value.
- *Mortgages and Notes Receivable:* Valued based upon estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loan.
- *Real Estate:* Valued based upon appraisals, which utilize inputs derived from or corroborated by observable market data.
- *Alternative Investments:* Valued based on the net asset value of the investment (or its equivalent) without further adjustment (unless management determines that the net asset value is deemed to be not reflective of fair value) since the alternative investments are investment companies that have calculated net asset value per share in accordance with the specialized accounting guidance for investment companies. The fair value of such investments generally represents the amount the Foundation would expect to receive if it were to liquidate its investment in the partnerships excluding any redemption charges that may apply.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 8 - FAIR VALUE - Continued

The following table sets forth, by level within the fair value hierarchy, the Foundation's investment assets at fair value, as of December 31, 2020:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 37,471,697	\$ 37,471,697	\$ -	\$ -
Fixed income securities	53,143,093	53,143,093	-	-
Mutual funds	30,675,104	30,675,104	-	-
Marketable equity securities	64,436,696	64,059,095	377,601	-
Mortgages and notes receivable	1,639,951	-	1,639,951	-
Residential real estate	461,213	-	461,213	-
Timber and timberland	955,000	-	955,000	-
Other assets	1,325,087	53,340	1,271,747	-
Accrued income	333,883	333,883	-	-
	190,441,724	185,736,212	4,705,512	-
Alternative investments	94,729,515	-	-	-
	<u>\$ 285,171,239</u>	<u>\$ 185,736,212</u>	<u>\$ 4,705,512</u>	<u>\$ -</u>

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 8 - FAIR VALUE - Continued

The following table sets forth, by level within the fair value hierarchy, the Foundation's investment assets at fair value, as of December 31, 2019:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 31,031,698	\$ 31,031,698	\$ -	\$ -
Fixed income securities	46,604,465	46,604,465	-	-
Mutual funds	51,848,918	51,848,918	-	-
Marketable equity securities	37,465,737	37,204,436	261,301	-
Mortgages and notes receivable	1,631,092	-	1,631,092	-
Residential real estate	464,513	-	464,513	-
Timber and timberland	1,948,800	-	1,948,800	-
Other assets	1,243,925	65,712	1,178,213	-
Accrued income	372,754	372,754	-	-
	<u>172,611,902</u>	<u>167,127,983</u>	<u>5,483,919</u>	<u>-</u>
Alternative investments	81,987,683	-	-	-
	<u>\$ 254,599,585</u>	<u>\$ 167,127,983</u>	<u>\$ 5,483,919</u>	<u>\$ -</u>

The Foundation's policy is to recognize transfers in and transfers out of the valuation levels as of the beginning of the reporting period. There were no transfers between valuation levels during the years ended December 31, 2020 or 2019.

The Foundation invests in limited partnerships and limited liability companies, which are commonly known as alternative investments. Such alternative investments are reported at the net asset value (NAV) per share (or its equivalent) practical expedient and are not categorized within the fair value hierarchy. The alternative investments make indirect and direct investments in complex financial instruments whose value is derived from an underlying security, commodity, or asset. These investments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, need for direct oversight, dependence on key individuals, emphasis on speculative investments, and transparency of portfolio composition. Because alternative investments are not readily marketable, their value is subject to some degree of uncertainty and, therefore, may differ from the value that would have been used if a ready market for such investments existed.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 8 - FAIR VALUE - Continued

The following table summarizes investments measured at fair value based on NAV per share (or its equivalent) at December 31, 2020, with information related to the redemption rights of such investments:

Investment	Fair Value	Redemption Frequency	Redemption Notice Period	Lock-up Provision
Courage Special Situations Offshore Fund, Ltd.	\$ 113,234	Monthly	60 days	Rolling three years, expired February 2020
Courage Credit Opportunity Offshore Fund III, L.P.	\$ 2,975,003	n/a	n/a	Life of the partnership (9 years), expiring May 2021
Courage Credit Opportunity Offshore Fund IV, L.P.	16,668,512	n/a	n/a	Life of the partnership (7 years, plus optional extension periods)
Courage Music Royalty Fund, LP	8,753,477	n/a	n/a	Life of the partnership (7 years) expiring June 2026
Undiscovered Value Fund, Ltd. Class A Series (03-18)	35,188,460	Quarterly	65 days	Initial year of investment, expired Life of the partnership (15 years), expiring December 2025
RMS Forest Growth Fund III, LP	7,553,127	n/a	n/a	Life of the partnership (10 years), expiring October 2021
U.S. Farming Realty Trust II, LP	7,440,151	n/a	n/a	Rolling one year, expired February 2020
Ceres Farms, LLC	14,380,558	Annually	5 months	Life of the partnership (3 years), expiring September 2023
Sovereign's Capital	956,043	n/a	n/a	Life of the partnership (10 years), expiring August 2031
Callis Capital	700,950	n/a	n/a	
	<u>\$ 94,729,515</u>			

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 8 - FAIR VALUE - Continued

The following table summarizes investments measured at fair value based on NAV per share (or its equivalent) at December 31, 2019, with information related to the redemption rights of such investments:

Investment	Fair Value	Redemption Frequency	Redemption Notice Period	Lock-up Provision
Courage Special Situations Offshore Fund, Ltd.	\$ 2,293,560	Monthly	60 days	Rolling three years, expired February 2020
Courage Credit Opportunity Offshore Fund III, L.P.	3,678,824	n/a	n/a	Life of the partnership (9 years), expiring May 2021
Courage Credit Opportunity Offshore Fund IV, L.P.	2,813,654	n/a	n/a	Life of the partnership (7 years, plus optional extension periods)
Courage Music Royalty Fund, LP Undiscovered Value Fund, Ltd.	7,988,537	n/a	n/a	Life of the partnership (7 years) expiring June 2026
Class A Series (03-18)	16,753,950	Quarterly	65 days	Initial year of investment, expired
Class A Series (08-18)	20,862,191	Quarterly	65 days	Initial year of investment, expired
RMS Forest Growth Fund III, LP	8,196,932	n/a	n/a	Life of the partnership (15 years), expiring December 2025
U.S. Farming Realty Trust II, LP	7,782,742	n/a	n/a	Life of the partnership (10 years), expiring October 2021
Ceres Farms, LLC	11,617,293	Annually	5 months	Rolling one year, expiring February 2020
	<u>\$ 81,987,683</u>			

The following is a description of the significant investment strategies of the Foundation's alternative investments:

- *Courage Special Situations Offshore Fund, Ltd.*: Achieve significant capital gains while minimizing risk associated with the broad equity markets.
- *Courage Credit Opportunities Offshore Fund III, L.P.*: Achieve investment returns while emphasizing distressed investments in financially troubled companies, including those of companies that may, or have, become involved in reorganization or bankruptcy proceedings.
- *Courage Credit Opportunities Offshore Fund IV, L.P.*: Achieve investment returns while emphasizing distressed investments in financially troubled companies, including those of companies that may, or have, become involved in reorganization or bankruptcy proceedings.
- *Courage Music Royalty Fund, LP*: Achieve investment returns from royalty income generated by purchasing primarily selected Christian music rights, such as digital streaming and downloaded music, and copyrights.
- *Undiscovered Value Fund, Ltd.*: Seek long-term appreciation above historical equity returns over a full market cycle with volatility that is lower than that of the equity market.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 8 - FAIR VALUE - Continued

- *RMS Forest Growth Fund III, LP*: Invest in timberland properties and/or long-term timberland leaseholds or project ventures which invest in timberland properties or long-term timberland leaseholds.
- *U.S. Farming Realty Trust II, LP*: Achieve short-term distributable cash income and long-term capital appreciation through investments in a diversified portfolio of farmlands to be leased to farming operators or to use for direct farming operations.
- *Ceres Farms, LLC*: Generate an attractive total return through the acquisition and management of farmland in the Midwestern United States of America.
- *Callis Capital*: To make investments in and pursue targets in real estate and related businesses that care for, minister to, educate, train, and inspire men and women in the United States, and that utilize free enterprise, business, and economics to improve the quality of their lives and the lives of those in their communities, including but not limited to target investment entities that seek to empower individuals and businesses to harness the power of the marketplace to alleviate spiritual and physical poverty and to solve critical social and environmental problems.
- *Sovereign's Capital*: To make investments in and pursue targets in real estate and related businesses that care for, minister to, educate, train, and inspire men and women in the United States, and that utilize free enterprise, business, and economics to improve the quality of their lives and the lives of those in their communities, including but not limited to target investment entities that seek to empower individuals and businesses to harness the power of the marketplace to alleviate spiritual and physical poverty and to solve critical social and environmental problems.

NOTE 9 - RETIREMENT PLANS

The Foundation makes contributions for its employees to a defined contribution retirement plan maintained by GuideStone Financial Resources, an entity affiliated with the Southern Baptist Convention. The Foundation makes non-matching contributions to employee accounts equal to 10% of the employee's salary. The Foundation matches employee contributions, up to 5% of the employee's salary, based on years of service. Employees are eligible for participation in the plan on the first day of employment and are fully vested on their fifth year of service. Contributions to the plan totaled \$177,879 and \$173,808 during the years ended December 31, 2020 and 2019, respectively.

The Foundation also sponsors a deferred compensation plan. The related deferred compensation liability totaled \$875,673 and \$782,672 at December 31, 2020 and 2019, respectively.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2020 and 2019

(Continued)

NOTE 10 - RELATED PARTY TRANSACTIONS

The Foundation is affiliated with the Alabama Baptist State Convention and receives administrative support through the Cooperative Program of the State Board of Missions. The State Board of Missions provided \$135,086 and \$136,203 in administrative support to the Foundation during the years ended December 31, 2020 and 2019, respectively. The Foundation also administers certain assets for the State Board of Missions, whose value totaled \$11,128,959 and \$9,924,594 at December 31, 2020 and 2019, respectively.

NOTE 11 - FUNCTIONAL EXPENSES

The financial statements contain certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and employee benefits, office and travel expenses and depreciation. Management determined, based on the nature of the Foundation's operations and organizational structure, that the principal drivers of expenses are number of employees and square footage of office space. Therefore, the number of employees is used as the basis for allocating salaries and employee benefits and travel expenses, and the square footage of office space is used as the basis for allocating office expenses and depreciation.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Foundation leases office equipment under a noncancelable operating lease agreement expiring in April 2023. Rent expense incurred under the operating lease agreement totaled \$12,581 and \$13,389 during the years ended December 31, 2020 and 2019, respectively. At December 31, 2020, minimum future amounts due under the noncancelable operating lease agreement for the next three years are as follows:

2021	\$	5,640
2022		5,640
2023		1,880
	\$	<u>13,160</u>

NOTE 13 - UNCERTAINTIES

A novel strain of coronavirus, COVID-19, emerged in the United States in early 2020. The extent of the impact of COVID-19 on the Foundation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on its donors, employees and vendors, all of which are uncertain and cannot be predicted. The extent to which COVID-19 may impact the Foundation's financial condition or results of operations in the near term is uncertain.