

**THE BAPTIST FOUNDATION OF ALABAMA**

Financial Statements

December 31, 2021 and 2020

## TABLE OF CONTENTS

|   | Page     |
|---|----------|
| <b>INDEPENDENT AUDITORS' REPORT .....</b> | <b>3</b> |
| <b>FINANCIAL STATEMENTS</b>               |          |
| Statements of Financial Position.....     | 5        |
| Statements of Activities .....            | 6        |
| Statements of Functional Expenses .....   | 8        |
| Statements of Cash Flows .....            | 10       |
| Notes to Financial Statements.....        | 11       |

## **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 (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Baptist Foundation of Alabama as of December 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Baptist Foundation of Alabama and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Baptist Foundation of Alabama's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

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

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

BMSS, LLC

Birmingham, Alabama  
June 23, 2022

**THE BAPTIST FOUNDATION OF ALABAMA**  
 Statements of Financial Position  
 December 31, 2021 and 2020

|                                       | <b>2021</b>          | <b>2020</b>          |
|---------------------------------------|----------------------|----------------------|
| <b>Assets</b>                         |                      |                      |
| Cash and cash equivalents             | \$ 1,558,143         | \$ 1,450,868         |
| Accounts receivable                   | 13,858               | 12,506               |
| Investments                           | 75,696,754           | 71,410,551           |
| Investments held for others           | 236,343,439          | 213,760,688          |
| Property and equipment, net           | 1,713,498            | 1,755,843            |
|                                       | <b>\$315,325,692</b> | <b>\$288,390,456</b> |
| <br><b>Liabilities and Net Assets</b> |                      |                      |
| Accounts payable and accrued expenses | \$ 973,185           | \$ 926,065           |
| Investments held for others           | 236,343,439          | 213,760,688          |
|                                       | 237,316,624          | 214,686,753          |
| Net assets                            |                      |                      |
| Without donor restrictions            | 32,833,030           | 30,880,261           |
| With donor restrictions               | 45,176,038           | 42,823,442           |
|                                       | 78,009,068           | 73,703,703           |
|                                       | <b>\$315,325,692</b> | <b>\$288,390,456</b> |

See notes to financial statements.

**THE BAPTIST FOUNDATION OF ALABAMA**

Statement of Activities  
Year ended December 31, 2021

|  | <b>Without<br/>Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Total</b>  |
|--|---|------------------------------------|---------------|
| <b>Support and Revenue</b>               |   |                                    |               |
| Contributions                            | \$ 997,791                                | \$ 347,938                         | \$ 1,345,729  |
| Cooperative program                      | 140,051                                   | -                                  | 140,051       |
| Investment and administrative fee income | 1,242,168                                 | -                                  | 1,242,168     |
| Investment income                        | 2,518,083                                 | 3,509,199                          | 6,027,282     |
| Trust and other income                   | 42,177                                    | -                                  | 42,177        |
| Net assets released from restriction     | 1,504,541                                 | (1,504,541)                        | -             |
|  | 6,444,811                                 | 2,352,596                          | 8,797,407     |
| <b>Expenses</b>                          |   |                                    |               |
| Program services                         | 2,723,400                                 | -                                  | 2,723,400     |
| Supporting activities                    | 1,768,642                                 | -                                  | 1,768,642     |
|  | 4,492,042                                 | -                                  | 4,492,042     |
| Change in net assets                     | 1,952,769                                 | 2,352,596                          | 4,305,365     |
| Net assets - beginning of year           | 30,880,261                                | 42,823,442                         | 73,703,703    |
| Net assets - end of year                 | \$ 32,833,030                             | \$ 45,176,038                      | \$ 78,009,068 |

See notes to financial statements.

**THE BAPTIST FOUNDATION OF ALABAMA**

Statement of Activities  
Year ended December 31, 2020

|  | <b>Without<br/>Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Total</b>  |
|--|---|------------------------------------|---------------|
| <b>Support and Revenue</b>               |   |                                    |               |
| 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)                        | -             |
|  | 8,161,512                                 | 4,470,291                          | 12,631,803    |
| <b>Expenses</b>                          |   |                                    |               |
| Program services                         | 2,368,189                                 | -                                  | 2,368,189     |
| Supporting activities                    | 1,630,299                                 | -                                  | 1,630,299     |
|  | 3,998,488                                 | -                                  | 3,998,488     |
| Change in net assets                     | 4,163,024                                 | 4,470,291                          | 8,633,315     |
| Net assets - beginning of year           | 26,717,237                                | 38,353,151                         | 65,070,388    |
| Net assets - end of year                 | \$ 30,880,261                             | \$ 42,823,442                      | \$ 73,703,703 |

See notes to financial statements.

**THE BAPTIST FOUNDATION OF ALABAMA**

Statement of Functional Expenses

Year ended December 31, 2021

|   | <u>Program Services</u>     | <u>Supporting Activities</u>      |                     |                         | <u>Total Expenses</u> |
|---|-----------------------------|-----------------------------------|---------------------|-------------------------|-----------------------|
|   | <u>Trust Administration</u> | <u>General and Administrative</u> | <u>Development</u>  | <u>Total Supporting</u> |                       |
| Depreciation                              | \$ 39,941                   | \$ 18,372                         | \$ 21,568           | \$ 39,940               | \$ 79,881             |
| Disbursements for beneficiaries and other | 1,974,200                   | -                                 | -                   | -                       | 1,974,200             |
| Office expense                            | 125,784                     | 120,288                           | 79,271              | 199,559                 | 325,343               |
| Professional                              | 67,230                      | 71,098                            | 76,375              | 147,473                 | 214,703               |
| Promotion and public relations            | 1,387                       | 2,500                             | 18,385              | 20,885                  | 22,272                |
| Salaries and benefits                     | 500,611                     | 539,498                           | 791,376             | 1,330,874               | 1,831,485             |
| Travel                                    | 14,247                      | 3,621                             | 26,290              | 29,911                  | 44,158                |
|   | <u>\$ 2,723,400</u>         | <u>\$ 755,377</u>                 | <u>\$ 1,013,265</u> | <u>\$ 1,768,642</u>     | <u>\$ 4,492,042</u>   |

See notes to financial statements.



**THE BAPTIST FOUNDATION OF ALABAMA**

Statement of Functional Expenses

Year ended December 31, 2020

|   | <u>Program Services</u>     | <u>Supporting Activities</u>      |                    |                         | <u>Total Expenses</u> |
|---|-----------------------------|-----------------------------------|--------------------|-------------------------|-----------------------|
|   | <u>Trust Administration</u> | <u>General and Administrative</u> | <u>Development</u> | <u>Total Supporting</u> |                       |
| Depreciation                              | \$ 41,167                   | \$ 16,951                         | \$ 22,601          | \$ 39,552               | \$ 80,719             |
| Disbursements for beneficiaries and other | 1,520,412                   | -                                 | -                  | -                       | 1,520,412             |
| Office expense                            | 112,312                     | 70,689                            | 67,998             | 138,687                 | 250,999               |
| Professional                              | 57,982                      | 75,051                            | 75,521             | 150,572                 | 208,554               |
| Promotion and public relations            | 2,439                       | 1,263                             | 13,575             | 14,838                  | 17,277                |
| Salaries and benefits                     | 624,721                     | 505,881                           | 762,553            | 1,268,434               | 1,893,155             |
| Travel                                    | 9,156                       | 3,280                             | 14,936             | 18,216                  | 27,372                |
|   | <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**

Statements of Cash Flows

Years ended December 31, 2021 and 2020

|  | <b>2021</b>  | <b>2020</b>  |
|--|--------------|--------------|
| <b>Operating Activities</b>  |              |              |
| Change in net assets   | \$ 4,305,365 | \$ 8,633,315 |
| Adjustments to reconcile change in net assets to net cash used in operating activities |              |              |
| Depreciation   | 79,881       | 80,719       |
| Loss on sale of property and equipment   | 14,477       | -            |
| Forgiveness of debt income   | -            | (294,448)    |
| Investment income  | (6,201,029)  | (8,727,616)  |
| Contributions restricted for investment in permanent endowment                         | (159,230)    | (595,230)    |
| Changes in operating assets and liabilities  |              |              |
| Accounts receivable  | (1,352)      | 9,512        |
| Accounts payable and accrued expenses  | 47,120       | 106,686      |
|  | (1,914,768)  | (787,062)    |
| <b>Investing Activities</b>  |              |              |
| Proceeds from sale of investments  | 4,700,123    | 3,518,025    |
| Purchases of investments   | (2,785,297)  | (3,132,583)  |
| Proceeds from sale of property and equipment   | 240          | -            |
| Purchases of property and equipment  | (52,253)     | (7,301)      |
|  | 1,862,813    | 378,141      |
| <b>Financing Activities</b>  |              |              |
| Proceeds from contributions restricted for investment in permanent endowment           | 159,230      | 595,230      |
| Proceeds from long-term debt   | -            | 294,448      |
|  | 159,230      | 889,678      |
| Net cash provided by investing activities  | 1,862,813    | 378,141      |
| Net cash provided by financing activities  | 159,230      | 889,678      |
| Net increase in cash and cash equivalents  | 107,275      | 480,757      |
| Cash and cash equivalents - beginning of year  | 1,450,868    | 970,111      |
| Cash and cash equivalents - end of year  | \$ 1,558,143 | \$ 1,450,868 |

See notes to financial statements.

## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2021 and 2020

### 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 June 23, 2022, 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, 2021 and 2020

(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, 2021 or 2020.

**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 BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Property and Equipment - Continued**

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.

**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.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Investments - Continued**

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 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, 2021 and 2020; adjusted to 2.16% and 2.40% at December 31, 2021 and 2020, 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, 2021 and 2020

(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, 2021 and 2020, respectively, approximately 14% and 12% 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 fully amount of the loan was forgiven by the SBA in February 2021.

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, 2021 and 2020 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, 2021 and 2020

(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, 2021 and 2020

(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:

|  | <b>2021</b>    | <b>2020</b>    |
|--|----------------|----------------|
| Financial assets   | \$ 313,612,194 | \$ 286,634,613 |
| Less those unavailable for general expenditures within one year                        |                |                |
| Contractual or donor-imposed restrictions  |                |                |
| Restricted by donor with purpose restrictions  | 1,474,798      | 1,311,387      |
| Subject to appropriation and satisfaction of donor restrictions                        | 43,701,240     | 41,512,055     |
| Investments held for others  | 236,343,439    | 213,760,688    |
| Board designations   |                |                |
| Endowment funds  | 5,484,210      | 5,307,795      |
| Amounts set aside for  |                |                |
| Operating reserves   | 1,803,135      | 1,654,269      |
| Church estate stewardship  | 445,393        | 570,853        |
| Church loans   | 1,585,893      | 1,570,572      |
|  | 290,838,108    | 265,687,619    |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 22,774,086  | \$ 20,946,994  |

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

**NOTE 3 - INVESTMENTS**

Investments consisted of the following at December 31, 2021:

|                                | <b>Fair Value</b>     | <b>Cost</b>           | <b>Unrealized<br/>Appreciation<br/>(Depreciation)</b> |
|--------------------------------|-----------------------|-----------------------|---|
| Cash and cash equivalents      | \$ 32,641,912         | \$ 32,638,368         | \$ 3,544  |
| Fixed income securities        | 63,505,578            | 64,029,899            | (524,321)   |
| Limited partnerships           | 108,258,258           | 91,754,066            | 16,504,192  |
| Mutual funds                   | 30,077,698            | 15,537,847            | 14,539,851  |
| Marketable equity securities   | 73,838,820            | 59,420,642            | 14,418,178  |
| Mortgages and notes receivable | 1,552,355             | 1,552,355             | -   |
| Residential real estate        | 354,070               | 354,060               | 10  |
| Timber and timberland          | 155,000               | 155,000               | -   |
| Other assets                   | 1,305,221             | 43,064                | 1,262,157   |
| Accrued income                 | 351,281               | 351,281               | -   |
|                                | <b>\$ 312,040,193</b> | <b>\$ 265,836,582</b> | <b>\$ 46,203,611</b>                                  |

Investments consisted of the following at December 31, 2020:

|                                | <b>Fair Value</b>     | <b>Cost</b>           | <b>Unrealized<br/>Appreciation</b> |
|--------------------------------|-----------------------|-----------------------|------------------------------------|
| 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               | -                                  |
|                                | <b>\$ 285,171,239</b> | <b>\$ 243,157,953</b> | <b>\$ 42,013,286</b>               |

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

**NOTE 3 - INVESTMENTS - Continued**

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

|                             | <u>2021</u>           | <u>2020</u>           |
|-----------------------------|-----------------------|-----------------------|
| Investments                 | \$ 75,696,754         | \$ 71,410,551         |
| Investments held for others | 236,343,439           | 213,760,688           |
|                             | <u>\$ 312,040,193</u> | <u>\$ 285,171,239</u> |

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

|   | <u>2021</u>           | <u>2020</u>           |
|---|-----------------------|-----------------------|
| Balance - beginning of year                           | \$ 213,760,688        | \$ 191,531,208        |
| Deposits and additions                                | 22,465,866            | 12,527,568            |
| Investment income                                     | 17,093,771            | 25,672,426            |
| Disbursements for beneficiaries and other withdrawals | (16,976,886)          | (15,970,514)          |
| Balance - end of year                                 | <u>\$ 236,343,439</u> | <u>\$ 213,760,688</u> |

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

|                               | <u>2021</u>         | <u>2020</u>         |
|-------------------------------|---------------------|---------------------|
| Land                          | \$ 696,687          | \$ 696,687          |
| Buildings and improvements    | 1,543,295           | 1,543,295           |
| Furniture and fixtures        | 431,277             | 421,678             |
| Automobiles                   | 179,925             | 172,591             |
|                               | <u>2,851,184</u>    | <u>2,834,251</u>    |
| Less accumulated depreciation | 1,137,686           | 1,078,408           |
|                               | <u>\$ 1,713,498</u> | <u>\$ 1,755,843</u> |

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

**NOTE 5 - BOARD-DESIGNATED NET ASSETS**

The Foundation's governing Board has designated, from net assets without donor restrictions of \$32,488,630 and \$30,880,261 at December 31, 2021 and 2020, respectively, net assets for the following purposes:

|                                    | <u>2021</u>         | <u>2020</u>         |
|------------------------------------|---------------------|---------------------|
| Board-designated endowment funds   |                     |                     |
| Purchase of property and equipment | \$ 140,667          | \$ 188,577          |
| Disaster relief                    | 33,952              | 32,523              |
| Scholarships                       | 151,277             | 144,909             |
| General purposes                   | 5,158,314           | 4,941,786           |
|                                    | <u>5,484,210</u>    | <u>5,307,795</u>    |
| Amounts set aside for              |                     |                     |
| Operating reserves                 | 1,803,135           | 1,654,269           |
| Church estate stewardship          | 445,393             | 570,853             |
| Church loans                       | 1,585,893           | 1,570,572           |
|                                    | <u>3,834,421</u>    | <u>3,795,694</u>    |
|                                    | <u>\$ 9,318,631</u> | <u>\$ 9,103,489</u> |

**NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS**

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

|   | <u>2021</u>      | <u>2020</u>      |
|---|------------------|------------------|
| Subject to expenditure for a specific purpose |                  |                  |
| Ministry services                             | \$ 526,100       | \$ 411,813       |
| Church loans                                  | 948,698          | 899,574          |
|   | <u>1,474,798</u> | <u>1,311,387</u> |

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

**NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS - Continued**

|  | <b>2021</b>   | <b>2020</b>   |
|--|---------------|---------------|
| Subject to the Foundation's spending policy and appropriation                                    |               |               |
| Net accumulated investment income and gains, which, once appropriated, are expendable to support |               |               |
| General purposes   | \$ 4,372,392  | \$ 3,656,673  |
| Churches and associations  | 78,124        | 71,100        |
| Children's home  | 432,710       | 351,900       |
| Education  | 57,638        | 49,664        |
| Ministry services  | 602,811       | 439,499       |
| Missions   | 126,181       | 82,045        |
| Scholarships   | 5,317,388     | 4,487,682     |
| Other puposes  | 658,401       | 477,128       |
| Investment in perpetuity, which, once appropriated, is expendable to support                     |               |               |
| General purposes   | 8,012,139     | 7,929,100     |
| Churches and associations  | 89,328        | 89,328        |
| Children's home  | 1,486,159     | 1,486,159     |
| Education  | 131,143       | 131,143       |
| Ministry services  | 2,442,809     | 2,442,260     |
| Missions   | 886,168       | 885,193       |
| Scholarships   | 16,088,591    | 15,959,925    |
| Other puposes  | 2,919,258     | 2,973,256     |
|  | 43,701,240    | 41,512,055    |
|  | \$ 45,176,038 | \$ 42,823,442 |

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:

|  | <b>2021</b>  | <b>2020</b>  |
|--|--------------|--------------|
| Satisfaction of program restrictions   | \$ 130       | \$ 2,809     |
| Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions | 1,504,411    | 1,363,344    |
|  | \$ 1,504,541 | \$ 1,366,153 |

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(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, 2021:

|   | <b>Without<br/>Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Total</b>         |
|---|---|------------------------------------|----------------------|
| Board-designated endowment funds  | \$ 5,484,210                              | \$ -                               | \$ 5,484,210         |
| Donor-restricted endowment funds  |   |                                    |                      |
| Original donor-restricted gift amount and amounts<br>required to be maintained in perpetuity by donor | -   | 32,055,595                         | 32,055,595           |
| Net accumulated investment income and gains   | -   | 11,645,645                         | 11,645,645           |
|   | <b>\$ 5,484,210</b>                       | <b>\$ 43,701,240</b>               | <b>\$ 49,185,450</b> |

Net assets associated with endowment funds consisted of the following at December 31, 2020:

|   | <b>Without<br/>Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Total</b>         |
|---|---|------------------------------------|----------------------|
| Board-designated endowment funds  | \$ 5,307,795                              | \$ -                               | \$ 5,307,795         |
| Donor-restricted endowment funds  |   |                                    |                      |
| Original donor-restricted gift amount and amounts<br>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            |
|   | <b>\$ 5,307,795</b>                       | <b>\$ 41,512,055</b>               | <b>\$ 46,819,850</b> |

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

**NOTE 7 - ENDOWMENT - Continued**

Changes in endowment net assets consisted of the following during the years ended December 31, 2021 and 2020:

|   | <b>Without<br/>Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Total</b>         |
|---|---|------------------------------------|----------------------|
| 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          | 5,307,795                                 | 41,512,055                         | 46,819,850           |
| Contributions                                     | -   | 427,711                            | 427,711              |
| Investment income                                 | 454,257                                   | 3,575,605                          | 4,029,862            |
| Appropriation of endowment assets for expenditure | (277,842)                                 | (1,814,131)                        | (2,091,973)          |
| Endowment net assets - December 31, 2021          | <u>\$ 5,484,210</u>                       | <u>\$ 43,701,240</u>               | <u>\$ 49,185,450</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 2.16% (2.40% during the year ended December 31, 2020) 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, 2021 and 2020

(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:

|                              | <u>2021</u>         | <u>2020</u>         |
|------------------------------|---------------------|---------------------|
| Fair value of assets         | \$ 801,948          | \$ 810,045          |
| Original gift plus additions | 965,759             | 1,077,692           |
|                              | <u>\$ (163,811)</u> | <u>\$ (267,647)</u> |

**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, 2021 or 2020.

- *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, 2021 and 2020

(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, 2021:

|                                | <b>Fair Value</b>     | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|--------------------------------|-----------------------|---|--|--|
| Cash and cash equivalents      | \$ 32,641,912         | \$ 32,641,912   | \$ -   | \$ -   |
| Fixed income securities        | 63,505,578            | 63,505,578  | -  | -  |
| Mutual funds                   | 30,077,698            | 30,077,698  | -  | -  |
| Marketable equity securities   | 73,838,820            | 73,838,820  | -  | -  |
| Mortgages and notes receivable | 1,552,355             | -   | 1,552,355  | -  |
| Residential real estate        | 354,070               | -   | 354,070  | -  |
| Timber and timberland          | 155,000               | -   | 155,000  | -  |
| Other assets                   | 1,305,221             | 40,485  | 1,264,736  | -  |
| Accrued income                 | 351,281               | 351,281   | -  | -  |
|                                | <u>203,781,935</u>    | <u>200,455,774</u>  | <u>3,326,161</u>   | <u>-</u>   |
| Alternative investments        | 108,258,258           | -   | -  | -  |
|                                | <u>\$ 312,040,193</u> | <u>\$ 200,455,774</u>   | <u>\$ 3,326,161</u>  | <u>\$ -</u>  |

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(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:

|                                | <b>Fair Value</b>     | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|--------------------------------|-----------------------|---|--|--|
| 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   | -  | -  |
|                                | <u>190,441,724</u>    | <u>185,736,212</u>  | <u>4,705,512</u>   | <u>-</u>   |
| Alternative investments        | 94,729,515            | -   | -  | -  |
|                                | <u>\$ 285,171,239</u> | <u>\$ 185,736,212</u>   | <u>\$ 4,705,512</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, 2021 or 2020.

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, 2021 and 2020

(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, 2021, with information related to the redemption rights of such investments:

| <b>Investment</b>   | <b>Fair Value</b>     | <b>Redemption<br/>Frequency</b> | <b>Redemption<br/>Notice<br/>Period</b> | <b>Lock-up Provision</b>  |
|---|-----------------------|---------------------------------|---|---|
| Callis Capital Fund 1 Feeder, LLC   | \$ 988,909            | n/a                             | n/a                                     | Life of the partnership (10 years),<br>expiring August 2031           |
| Ceres Farms, LLC  | 15,946,228            | Annually                        | 5 months                                | Rolling one year, expiring<br>February 2022                           |
| Creation Investment Social<br>Ventures Fund V   | 2,810,881             | n/a                             | n/a                                     | Life of partnership (10 years,<br>plus option extension periods)      |
| Courage Capital Opportunity<br>Offshore Fund III, LP  | 213,768               | n/a                             | n/a                                     | Life of partnership (10 years),<br>expiring May 2022                  |
| Courage Credit Opportunity<br>Offshore Fund IV, LP  | 15,407,839            | n/a                             | n/a                                     | Life of the partnership (7 years,<br>plus optional extension periods) |
| Courage Music Royalty Fund, LP  | 10,236,382            | n/a                             | n/a                                     | Life of the partnership (7 years),<br>expiring June 2026              |
| Private Advisors Real Asset<br>Fund III, LP   | 1,925,954             | n/a                             | n/a                                     | Life of partnership (3 years),<br>expiring April 2024                 |
| RMS Forest Growth Fund III, LP  | 7,607,378             | n/a                             | n/a                                     | Life of the partnership (15 years),<br>expiring December 2025         |
| Sovereign's Capital III, LP   | 2,398,624             | n/a                             | n/a                                     | Life of the partnership (3 years),<br>expiring September 2023         |
| Sovereign's Capital Evergreen<br>Fund I, LLC  | 1,345,057             | n/a                             | n/a                                     | Life of the partnership (5 years),<br>expiring October 2026           |
| U.S. Farming Realty Trust II, LP  | 8,774,429             | n/a                             | n/a                                     | Life of the partnership (15 years),<br>expiring December 2025         |
| West Tower Partners Ltd (formerly<br>Undiscovered Value Fund Ltd)<br>Class A Series (03-18) | 40,602,809            | Quarterly                       | 65 days                                 | Initial year of investment, expired                                   |
|   | <u>\$ 108,258,258</u> |                                 |   |   |

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(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:

| <b>Investment</b>                                      | <b>Fair Value</b>    | <b>Redemption<br/>Frequency</b> | <b>Redemption<br/>Notice<br/>Period</b> | <b>Lock-up Provision</b>  |
|--|----------------------|---------------------------------|---|---|
| Callis Capital Fund 1 Feeder, LLC                      | \$ 700,950           | n/a                             | n/a                                     | Life of the partnership (10 years),<br>expiring August 2031           |
| Ceres Farms, LLC                                       | 14,380,558           | Annually                        | 5 months                                | Rolling one year, expired<br>February 2020                            |
| Courage Capital Opportunity<br>Offshore Fund III, LP   | 2,975,003            | n/a                             | n/a                                     | Life of the partnership (9 years),<br>expiring May 2021               |
| Courage Credit Opportunity<br>Offshore Fund IV, LP     | 16,668,512           | n/a                             | n/a                                     | Life of the partnership (7 years,<br>plus optional extension periods) |
| Courage Music Royalty Fund, LP                         | 8,753,477            | n/a                             | n/a                                     | Life of the partnership (7 years),<br>expiring June 2026              |
| Courage Special Situations<br>Offshore Fund, Ltd       | 113,234              | Monthly                         | 60 days                                 | Rolling three years, expired<br>February 2020                         |
| RMS Forest Growth Fund III, LP                         | 7,553,127            | n/a                             | n/a                                     | Life of the partnership (15 years),<br>expiring December 2025         |
| Sovereign's Capital III, LP                            | 956,043              | n/a                             | n/a                                     | Life of the partnership (3 years),<br>expiring September 2023         |
| Undiscovered Value Fund, Ltd<br>Class A Series (03-18) | 35,188,460           | Quarterly                       | 65 days                                 | Initial year of investment, expired                                   |
| U.S. Farming Realty Trust II, LP                       | 7,440,151            | n/a                             | n/a                                     | Life of the partnership (10 years),<br>expiring October 2021          |
|  | <u>\$ 94,729,515</u> |                                 |   |   |

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

- *Callis Capital Fund I Feeder, LLC*: 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.

## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

### NOTE 8 - FAIR VALUE - Continued

- *Ceres Farms, LLC*: Generate an attractive total return through the acquisition and management of farmland in the Midwestern United States of America.
- *Creation Investment Social Ventures Fund V*: Provide financial services to the unbanked and underbanked populations at the bottom of the economic pyramid, including institutions that serve micro, small, and medium-sized enterprises or individual consumers, recognizing the financial opportunity and social importance of serving underpenetrated financial services markets in developing economies.
- *Courage Credit Opportunities Offshore Fund III, LP*: 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, LP*: 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.
- *Private Advisors Real Asset Fund III, LP*: To make and hold (i) primary and secondary investments in portfolio companies and (ii) secondary investments, in each case, they principally focus on the ownership, financing, and/or operation of real assets, and/or any services or revenue, royalty, or licensing streams related thereto, including without limitation, (a) assets or services in the energy, alternative energy, renewables, hydrocarbon, metals, agriculture, timber, commodities, natural resources, power, communications, and transportation sectors, and (b) other infrastructure and equipment, but excluding direct investments in real estate.
- *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.
- *Sovereign's Capital III, LP*: 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 Evergreen Fund I, LLC*: To raise capital for the acquisition of controlling interests in Vermeer Sales Southwest and Vermeer Rocky Mountain.
- *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.
- *West Tower Partners, Ltd (formerly Undiscovered Value Fund, Ltd.) Class A Series (03-18)*: 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, 2021 and 2020

(Continued)

**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 \$166,360 and \$177,879 during the years ended December 31, 2021 and 2020, respectively.

The Foundation also sponsors a deferred compensation plan. The related deferred compensation liability totaled \$918,984 and \$875,673 at December 31, 2021 and 2020, respectively.

**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 \$140,051 and \$135,086 in administrative support to the Foundation during the years ended December 31, 2021 and 2020, respectively. The Foundation also administers certain assets for the State Board of Missions, whose value totaled \$12,086,683 and \$11,187,297 at December 31, 2021 and 2020, 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.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

**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 \$14,623 and \$12,581 during the years ended December 31, 2021 and 2020, respectively. At December 31, 2021, minimum future amounts due under the noncancelable operating lease agreement for the next two years consist of the following:

|      |    |              |
|------|----|--------------|
| 2022 | \$ | 5,640        |
| 2023 |    | <u>1,880</u> |
|      | \$ | <u>7,520</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.