

**THE COMMUNITY FOUNDATION  
OF GREATER BIRMINGHAM**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The Community Foundation of Greater Birmingham

### **Report on the Financial Statements**

We have audited the accompanying statements of financial position of The Community Foundation of Greater Birmingham (a nonprofit organization) as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets 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 auditors consider 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 Community Foundation of Greater Birmingham as of December 31, 2018 and 2017, 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.

*Warren Averett, LLC*

Birmingham, Alabama

July 30, 2019

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2018 AND 2017**

<b>ASSETS</b>		
	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 5,925,384	\$ 5,004,122
Pledges receivable, net of allowance for uncollectible accounts of \$36,636 (\$4,200 at December 31, 2017)	1,720,302	211,236
Marketable securities, at fair value, cost of \$172,795,035 (\$161,027,803 at December 31, 2017)	190,633,347	201,040,929
Interest receivable	190,022	192,677
Other assets, net	68,633	60,786
Investment in real estate	517,889	517,889
Charitable gift annuities	167,856	232,096
Receivables from split-interest agreements	2,694,993	2,127,844
Beneficial interest in perpetual trusts	10,634,238	11,787,215
<b>TOTAL ASSETS</b>	<b>\$ 212,552,664</b>	<b>\$ 221,174,794</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Grants payable	\$ 3,404,516	\$ 3,352,874
Other liabilities	109,623	115,849
Funds held as agency endowments	10,893,631	11,498,242
Total liabilities	14,407,770	14,966,965
<b>NET ASSETS</b>		
Without donor restrictions	177,658,751	185,976,595
With donor restrictions	20,486,143	20,231,234
Total net assets	198,144,894	206,207,829
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 212,552,664</b>	<b>\$ 221,174,794</b>

See notes to the financial statements.

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>			
Contributions and bequests	\$ 19,128,299	\$ 3,136,520	\$ 22,264,819
Net investment return	(8,585,446)	(239,501)	\$ (8,824,947)
Loss on interest in perpetual trusts	-	(1,152,978)	(1,152,978)
Net assets released from restrictions	1,372,800	(1,372,800)	-
Total revenue and support	<u>11,915,653</u>	<u>371,241</u>	<u>12,286,894</u>
<b>EXPENSES AND LOSSES</b>			
Grants	18,292,639	-	18,292,639
Other expenses	118,712	-	118,712
Actuarial loss on annuity obligations	-	116,332	116,332
Operating and general expenses:			
Development	715,662	-	715,662
Finance, governance, and administration	518,778	-	518,778
Grantmaking and initiatives	587,706	-	587,706
Total expenses and losses	<u>20,233,497</u>	<u>116,332</u>	<u>20,349,829</u>
<b>CHANGE IN NET ASSETS</b>	(8,317,844)	254,909	(8,062,935)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>185,976,595</u>	<u>20,231,234</u>	<u>206,207,829</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 177,658,751</u>	<u>\$ 20,486,143</u>	<u>\$ 198,144,894</u>

See notes to the financial statements.

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE AND SUPPORT</b>			
Contributions and bequests	\$ 25,487,322	\$ 56,322	\$ 25,543,644
Net investment return	26,741,465	711,300	\$ 27,452,765
Gain on interest in perpetual trusts	-	457,767	457,767
Net assets released from restrictions	1,123,203	(1,123,203)	-
Total revenue and support	<u>53,351,990</u>	<u>102,186</u>	<u>53,454,176</u>
<b>EXPENSES AND LOSSES</b>			
Grants	89,950,705	-	89,950,705
Other expenses	404,939	-	404,939
Actuarial gain on annuity obligations	-	(80,611)	(80,611)
Operating and general expenses:			
Development	660,896	-	660,896
Finance, governance, and administration	512,318	-	512,318
Grantmaking and initiatives	646,632	-	646,632
Total expenses and losses	<u>92,175,490</u>	<u>(80,611)</u>	<u>92,094,879</u>
<b>CHANGE IN NET ASSETS</b>	<b>(38,823,500)</b>	<b>182,797</b>	<b>(38,640,703)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>224,800,095</u>	<u>20,048,437</u>	<u>244,848,532</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$185,976,595</u></u>	<u><u>\$ 20,231,234</u></u>	<u><u>\$206,207,829</u></u>

See notes to the financial statements.

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (8,062,935)	\$ (38,640,703)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	16,640	13,536
Change in provision for uncollectible accounts	32,436	(8,800)
Net unrealized and realized (gain) loss on investments	12,034,281	(29,065,220)
(Gain) loss on annuity obligations	116,332	(80,611)
(Gain) loss on interest in perpetual trusts	1,152,978	(457,767)
Contributions of marketable securities, split-interest agreements, other assets, charitable gift annuities, and perpetual trusts	(10,043,776)	(13,909,745)
Change in pledges receivable	(1,541,502)	452,299
Change in interest receivable	2,655	(22,296)
Change in other assets	(24,488)	(9,602)
Change in grants payable	51,642	(350,093)
Change in other liabilities	(6,226)	13,029
Change in funds held as agency endowments	(604,611)	581,826
Net cash used by operating activities	<u>(6,876,574)</u>	<u>(81,484,147)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities and sales of marketable securities	52,177,468	205,435,777
Purchase of marketable securities	(44,379,632)	(123,911,263)
Net cash provided by investing activities	<u>7,797,836</u>	<u>81,524,514</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 921,262</b>	<b>\$ 40,367</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF OF YEAR</b>	<u>5,004,122</u>	<u>4,963,755</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 5,925,384</u>	<u>\$ 5,004,122</u>

See notes to the financial statements.

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Community Foundation of Greater Birmingham (the Foundation) is composed of three separate legal entities. Two of the entities, a trust entity and a nonprofit corporation, are governed by a common Board of Directors and operate jointly as a community foundation for a single purpose. In 2004, the Charitable Real Estate Foundation (CREF) was set up as a support organization of the Foundation in order to facilitate gifts of real estate and has a separate Board of Directors approved by the Board of Directors of the Foundation. The Foundation uses its assets primarily to benefit residents of the greater Birmingham area, including Jefferson, Shelby, St. Clair, Blount, and Walker Counties. The mission of the Foundation is to ignite passion for transformational change. The Foundation currently focuses on achieving four specific results: children are successful along the education pipeline; people can lead healthy lives; communities are sustainable, livable, and vibrant; and individuals and families are economically secure.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions (formerly unrestricted net assets) and net assets with donor restrictions (formerly temporarily restricted and permanently restricted net assets).

**Net Assets Without Donor Restrictions**

Net assets without donor restrictions are those which are subject to variance power (the unilateral power of the Board of Directors to redirect the use of assets). The variance power allows the Board of Directors to modify donor instructions that are incapable of fulfillment or inconsistent with the charitable needs of the community. As a result of variance power, most contributions are classified as net assets without donor restrictions for financial statement purposes. Although the Board of Directors of the Foundation has variance power, its policy and intention are to comply with the instructions of the donors of each fund.

**Net Assets With Donor Restrictions**

Net assets with donor restrictions can be gifts whose use by the Foundation have been limited by donors to a specific time period or purpose. When a donor-imposed restriction expires or is otherwise satisfied, these net assets are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. Currently, these assets consist primarily of split-interest agreements, charitable gift annuities, and pledges receivable. Other net assets with donor restrictions have been restricted by donors and are to be maintained by the Foundation in perpetuity. Currently, these assets consist primarily of perpetual trusts.

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Generally accepted accounting principles (GAAP) provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). GAAP also promulgates disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA. See Note 10 regarding the Foundation's endowment funds.

**Functional Allocation of Expenses**

The costs of providing the various programs and support services have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. The natural classification detail of expenses by function is reflected in Note 8. Most expenses have been allocated among the various functions based on time and effort. Some expenses relate to more than one function and must be allocated consistently on a reasonable basis. These expenses are allocated on a usage basis.

**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 reporting date, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Foundation includes cash equivalents (defined as investments having an original maturity of three months or less when purchased) in cash flows for each year. The Foundation maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

**Fixed Assets and Depreciation**

Property and equipment in excess of \$1,000 are recorded at cost if purchased and at estimated fair value if donated. These assets are considered fixed assets and are depreciated using the straight-line method currently over a period ranging from 3-5 years. The cost and any accumulated depreciation are removed from the books for items sold or disposed of, and any resulting gain or loss is included in the determination of the change in net assets.

**Contributions and Bequests**

Contributions and bequests are accounted for at average fair market value on the date of contribution. All unconditional promises to give are considered to be contributions on the date the promise is made.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Allowance for Uncollectible Accounts**

The allowance for uncollectible accounts is maintained in amounts estimated to provide adequate reserves to cover anticipated losses based on a periodic evaluation of the outstanding pledges. On a continuing basis, management analyzes pledges, and once pledges are determined to be uncollectible, they are written off through a charge against an existing allowance account or operations.

**Marketable Securities**

Marketable securities are carried at fair value determined as of the last business day of the year at quoted market price as reported by the financial institution holding the security. The cost of marketable securities represents amounts paid for purchased securities or average market values, as of the date the security was donated to the Foundation for contributed securities. Realized gains and losses from the sales of securities are primarily determined by the specific identification method. Net unrealized appreciation or depreciation of marketable securities represents the change in the difference between the Foundation's cost and current market value of securities, as determined at the end of each year and includes the effect of amortization expense on securities.

In accordance with the *Not-for-Profit Entities* Topic 958 of the FASB Accounting Standards Codification (ASC), the Foundation reports net investment return in the accompanying statements of activities and changes in net assets, which consists of interest, dividends, realized and unrealized gains and losses netted with any direct internal and external investment expenses.

**Investment in Real Estate**

Investment in real estate is carried at the estimated fair value at the date of the gift, less depreciation where applicable.

**Charitable Gift Annuities**

Charitable gift annuities are assets that are transferred directly to the Foundation in exchange for distributions of a fixed amount for a specified period of time to the donor or beneficiaries. These assets are held as general assets of the Foundation, and the related annuity liability is recorded as a general obligation of the Foundation. The asset is recorded at the fair value on the date of the agreement, and an annuity liability is recorded for an amount equal to the present value of the future distributions to the beneficiary. The difference between the fair value of the assets received and the present value of the liability is recognized as contribution revenue.

**Receivables from Split-Interest Agreements**

The Foundation has certain trust agreements with donors under which both parties derive benefits. These types of arrangements are referred to as split-interest agreements. Split-interest agreements entered into by the Foundation consist primarily of charitable remainder trusts. Contribution revenues are recognized for the present value of the remainder interest and classified as increases in net assets with donor restrictions.

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

The fair value of contributions receivable from charitable remainder trusts is estimated by discounting the estimated cash flows to be received over the anticipated term of the trusts using the applicable federal discount and mortality rates published by the federal government. The rates currently being used to discount trust funds range from 5% to 6% based on the life expectancy of the beneficiaries. Changes in the value of these contributions receivable are reflected as actuarial gain (loss) on annuity obligations in the accompanying statements of activities and changes in net assets.

**Beneficial Interest in Perpetual Trusts**

The perpetual trusts are carried at the present value of the ultimate Foundation interest. The annual gain or loss on interest in perpetual trusts is reflected in the statements of activities and changes in net assets. The funds of the perpetual trusts are held by a local bank. These funds primarily consist of common stocks, governmental bonds, nongovernmental bonds, money market funds, and other investments.

**Fair Value Measurements**

The Foundation adheres to the provisions of GAAP for fair value measurement of financial assets and liabilities. Such provisions define fair value, establish a framework for measuring fair value, and expand disclosure about fair value measurement. GAAP also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under the provisions of GAAP, fair value measurements are disclosed by level within that hierarchy.

The Foundation's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the fair value provisions of the Accounting Standards Codification (ASC). The ASC establishes a fair value hierarchy that prioritizes the inputs used to measure fair value:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 – Valuations based on observable inputs, including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, volatilities, and default rates, and inputs that are derived principally from or corroborated by observable market data
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Valuation Techniques**

The fair value of short-term investments is based on quoted market prices in an active market for identical assets and liabilities as of the reporting date. The fair value of trading securities is categorized within Level 1 of the fair value hierarchy. The fair value of the Foundation's interest in certain funds is based on the assessment made by the investment managers for the Foundation of each underlying investment. These interests are included in Level 3 of the fair value hierarchy because the fair values of these investments are determined by the funds and are unobservable.

Some of the Foundation's financial instruments are not measured at fair value on a recurring basis. However, these instruments are carried at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include cash and cash equivalents, accounts receivable, interest receivable, grants payable, and other liabilities.

**Interest and Dividend Income**

Dividend income is recorded on the ex-dividend date, and interest is recorded on the accrual basis.

**Income Taxes**

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for federal income taxes has been included in the accompanying financial statements.

The Foundation adheres to the provisions of GAAP relating to uncertainty in income taxes. Such provisions require entities to assess their uncertain tax positions for the likelihood that they would be overturned upon Internal Revenue Service (IRS) examination or upon examination by state taxing authorities. In accordance with these provisions, the Foundation has determined that it does not have any positions at December 31, 2018 or 2017, that it would be unable to substantiate. The Foundation has filed its tax returns through December 31, 2017.

**Recent Accounting Pronouncements**

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in Topic 958 are intended to improve financial statement presentation by not-for-profit (NFP) organizations to provide more useful information to donors, grantors, creditors, and other financial statement users. The most significant provisions of this standard require two net asset classes, rather than the previous three classes, and additional disclosures. This standard is effective for the calendar year ended December 31, 2018. The Foundation adopted this standard in the current year.

The accompanying information from the 2017 financial statements has been restated to conform to the 2018 presentation and disclosure requirements of ASU 2016-14. As a result, previously reported unrestricted net assets have been classified as net assets without donor restriction, and previously reported temporarily and permanently restricted net assets have been classified as net assets with restrictions.

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM  
NOTES TO THE FINANCIAL STATEMENTS  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

In 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU are intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The ASU assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, and determining whether a contribution is conditional. This standard will be effective for the calendar year ending December 31, 2020. The Foundation is currently evaluating the impact of adoption of Topic 958.

**Subsequent Events**

Management has evaluated subsequent events and their potential effects on these financial statements through July 30, 2019, the date the financial statements were available to be issued.

**2. PLEDGES RECEIVABLE**

New pledges in 2018 amounted to \$2,009,260 (\$45,700 in 2017). Pledges made in 2018 were discounted to their present values assuming their respective terms at a discount rate of 2.66%, compounded annually. Pledges receivable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 936,147	\$ 79,068
Receivable in one to five years	<u>905,412</u>	<u>139,339</u>
Total pledges receivable	1,841,559	218,407
Less discount to net present value	84,621	2,971
Less allowance for uncollectible pledges receivable	<u>36,636</u>	<u>4,200</u>
Net pledges receivable	<u>\$ 1,720,302</u>	<u>\$ 211,236</u>

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM  
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**3. MARKETABLE SECURITIES**

Marketable securities at December 31 consist of the following:

	<u>2018</u>	<u>2017</u>
Domestic equities	\$ 66,600,053	\$ 62,943,344
International equities	28,049,116	39,812,368
Corporate debt securities	20,381,302	20,098,848
Other domestic bonds	26,574,775	26,547,862
High yield bonds	2,644,654	2,542,420
International bond funds	3,024,272	2,830,867
Private equity	3,749,950	3,255,562
Fund of funds	16,649,626	16,941,426
Real estate and REITs	10,261,452	9,808,518
Real assets	3,609,204	4,332,109
Cash and cash equivalents	<u>9,088,943</u>	<u>11,927,605</u>
Marketable securities at end of year	<u>\$ 190,633,347</u>	<u>\$201,040,929</u>

Investment management and custodial fees for 2018 and 2017 were \$767,779 and \$871,789, respectfully. These fees are netted with gross investment returns on the statements of activities and changes in net assets.

**4. CHARITABLE GIFT ANNUITIES**

At December 31, 2018, the Foundation has charitable gift annuities with a combined value of \$167,856 (\$232,096 at December 31, 2017). The following table summarizes activity in such funds during the years ended December 31:

	<u>2018</u>	<u>2017</u>
Charitable gift annuities at beginning of year	\$ 232,096	\$ 336,916
Investment income	8,503	5,740
Investment gain/(loss)	(14,882)	31,550
Fiduciary fees	(2,876)	(4,406)
Payments to beneficiaries	(29,729)	(108,763)
Annuity liability payments	<u>(25,256)</u>	<u>(28,941)</u>
Charitable gift annuities at end of year	<u>\$ 167,856</u>	<u>\$ 232,096</u>

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**5. RECEIVABLES FROM SPLIT-INTEREST AGREEMENTS**

At December 31, 2018, the Foundation has split-interest agreements with a combined value of \$2,694,993 (\$2,127,844 at December 31, 2017). The following table summarizes activity in such funds during the years ended December 31:

	<u>2018</u>	<u>2017</u>
Receivables from split-interest agreements at beginning of year	\$ 2,127,844	\$ 2,205,962
Contributions	1,241,345	-
Settlement of receivable	(572,746)	(127,178)
Unrealized investment gains (losses)	(101,450)	49,060
	<u>\$ 2,694,993</u>	<u>\$ 2,127,844</u>

**6. FUNDS HELD AS AGENCY ENDOWMENTS**

GAAP establishes standards for transactions in which an organization, such as the Foundation, accepts a contribution from a donor and agrees to use those assets on behalf of another organization or transfer those assets, the return of investment of those assets or both to another entity that is specified by the donor. GAAP specifically requires that if a not-for-profit organization (NPO) establishes a fund at an organization with its own funds and specifies itself as the beneficiary of the fund, the organization must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency endowments.

The Foundation maintains variance power over agency endowment funds and continues to report the funds as assets of the Foundation. However, in accordance with GAAP, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPO.

At December 31, 2018 and 2017, the Foundation managed approximately 37 agency endowment funds with a combined value of \$10,893,631 and \$11,498,242, respectively. The following table summarizes activity in such funds during the years ended December 31:

	<u>2018</u>	<u>2017</u>
Agency endowment fund balances at beginning of year	\$ 11,498,242	\$ 10,916,416
Contributions	292,795	627,888
Investment income	162,948	137,627
Unrealized and realized investment gains (losses)	(671,906)	1,251,521
Grants and other changes	(279,772)	(1,319,656)
Fiduciary fees	(108,676)	(115,554)
	<u>\$ 10,893,631</u>	<u>\$ 11,498,242</u>

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM  
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**7. LIQUIDITY**

Financial assets available for grants, special initiatives, and general operating expenses within one year of the statement of financial position date comprise the following at December 31, 2018:

Cash and cash equivalents	\$ 2,116,698
Operating reserves	390,268
Special initiatives	1,515,823
Grants awarded	3,751,379
Board-designated endowment for operating support	4,781,975
Long-term investments made available for current use	<u>1,729,050</u>
	<u>\$ 14,285,193</u>

- Cash and cash equivalents represent estimated administrative fees to be assessed for 2019, along with residual funds from the 2018 operating budget.
- Operating reserves represent residual funds from prior years approved by the Board for future operating shortfalls.
- Special initiatives represent funds set aside for special impact projects approved by the Board.
- Grants awarded represent grant commitments approved by the Board as of December 31, 2018.
- Board-Designated endowment for operating support represents funds established by the Board to support general operations. Each year, the fund makes a distribution to the general operating budget based on the spending policy. In 2018, the allocation accounted for 9% of the Foundation's operating budget. Although the Foundation does not intend to request an allocation in excess of the annual spendable amount from the endowment, the Board can choose to do so should it be deemed necessary.
- Long-term investments made available for current use represent estimated competitive grantmaking funds from the Foundation's unrestricted endowments based on the 2019 spending policy.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as awarded grants, general expenditures, liabilities, and other obligations become due. The Foundation currently invests cash in excess of daily requirements in money market funds.

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**8. FUNCTIONAL EXPENSE ALLOCATION**

The table below categorizes the operating and general expenses by both their nature and their function for the year ended December 31, 2018:

	<b>Grants</b>	<b>Grant-making and initiatives and other</b>	<b>Finance, governance, and administration</b>	<b>Development</b>	<b>Total</b>
Grants	\$ 18,292,639	\$ -	\$ -	\$ -	\$ 18,292,639
Administrative	-	61,175	55,975	80,208	197,358
Communications/marketing	-	-	-	41,534	41,534
Development/advancement	-	-	25	22,744	22,769
Grant cycles/initiatives	-	70,452	-	22,853	93,305
Personnel costs	-	418,466	397,358	507,244	1,323,068
Professional services	-	21,855	46,552	27,978	96,385
Travel/development	-	10,316	14,143	6,627	31,086
Depreciation	-	5,442	4,725	6,474	16,641
Other expenses	-	118,712	-	-	118,712
	<u>\$ 18,292,639</u>	<u>\$ 706,418</u>	<u>\$ 518,778</u>	<u>\$ 715,662</u>	<u>\$ 20,233,497</u>

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**9. FAIR VALUE MEASUREMENTS**

The Foundation's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with GAAP. See Note 1 for a discussion of the Foundation's policies regarding this hierarchy.

The following fair value hierarchy table presents information about the Foundation's assets and liabilities measured or disclosed at fair value on a recurring basis as of December 31, 2018:

ASSETS	Fair Value Measurement at Report Date Using			
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Marketable securities:				
Domestic equities	\$ 66,600,053	\$ 66,600,053	\$ -	\$ -
International equities	28,049,116	28,049,116	-	-
Corporate debt securities	20,381,302	20,381,302	-	-
Other domestic bonds	26,574,775	26,574,775	-	-
High yield bonds	2,644,654	2,644,654	-	-
International bond funds	3,024,272	3,024,272	-	-
Private equity	3,749,950	-	-	3,749,950
Fund of funds	16,649,626	-	-	16,649,626
Real estate and REITs	10,261,452	453,569	-	9,807,883
Real assets	3,609,204	3,527,890	-	81,314
Cash and cash equivalents	9,088,943	9,088,943	-	-
	<u>190,633,347</u>	<u>160,344,574</u>	-	<u>30,288,773</u>
Charitable gift annuities	167,856	-	167,856	-
Split-interest receivables	2,694,993	-	2,694,993	-
Beneficial interest in perpetual trusts	10,634,238	-	-	10,634,238
<b>Total Assets</b>	<u>\$ 204,130,434</u>	<u>\$ 160,344,574</u>	<u>\$ 2,862,849</u>	<u>\$ 40,923,011</u>



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**9. FAIR VALUE MEASUREMENTS – CONTINUED**

The following fair value hierarchy table presents information about the Foundation’s assets and liabilities measured or disclosed at fair value on a recurring basis as of December 31, 2017:

ASSETS	Fair Value	Fair Value Measurement at Report Date Using		
		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Marketable securities:				
Domestic equities	\$ 62,943,344	\$ 62,943,344	\$ -	\$ -
International equities	39,812,368	39,812,368	-	-
Corporate debt securities	20,098,848	20,098,848	-	-
Other domestic bonds	26,547,862	26,547,862	-	-
High yield bonds	2,542,420	2,542,420	-	-
International bond funds	2,830,867	2,830,867	-	-
Private equity	3,255,562	-	-	3,255,562
Fund of funds	16,941,426	-	318,324	16,623,102
Real estate investment trusts	9,808,518	630,081	-	9,178,437
Real assets	4,332,109	3,017,603	-	1,314,506
Cash and cash equivalents	11,927,605	11,927,605	-	-
	201,040,929	170,350,998	318,324	30,371,607
Charitable gift annuities	232,096	-	232,096	-
Split-interest receivables	2,127,844	-	2,127,844	-
Beneficial interest in perpetual trusts	11,787,215	-	-	11,787,215
<b>Total Assets</b>	<b>\$ 215,188,084</b>	<b>\$ 170,350,998</b>	<b>\$ 2,678,264</b>	<b>\$ 42,158,822</b>

The table below sets forth a summary of changes in the fair value of the Foundation’s Level 3 investment assets for the year ended December 31, 2017:

	Beneficial Interest in Perpetual Trusts	Marketable Securities
Balance at beginning of year	\$ 11,329,448	\$ 40,585,072
Realized losses	-	(1,551,046)
Unrealized gains relating to instruments held at the reporting Date	457,767	5,795,069
Purchases	-	4,240,812
Sales, issuances, and settlements (net)	-	(18,698,300)
Balance at end of year	<u>\$ 11,787,215</u>	<u>\$ 30,371,607</u>

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**9. FAIR VALUE MEASUREMENTS – CONTINUED**

The following table presents information about the Foundation’s investments that have fair values estimated using net asset value per share as of December 31, 2018:

<b>Fair Value Measurement of Investments That Calculate Net Asset Value</b>				
	<b>Fair Value 2018</b>	<b>Unfunded Commitments 2018</b>	<b>Redemption Frequency (If Currently Eligible)</b>	<b>Redemption Notice Period</b>
<b>Alternative Investments</b>				
Hedge Funds (a)	\$ 1,133,535	\$ -	Quarterly	95 days
Hedge Funds (a)	7,866,721	-	Quarterly	100 days
Hedge Funds (b)	20,188	-	No longer active	N/A
Hedge Funds (c)	7,629,182	-	Semi-annually	105 days
Real Estate (d)	8,291,539	-	Quarterly	60 days
Limited Partnership (e)	4,549,032	3,465,204	Currently ineligible	
Limited Partnership (f)	717,262	847,500	Currently ineligible	
<b>Total</b>	<b>\$ 30,207,459</b>	<b>\$ 4,312,704</b>		

- (a) These funds are hedge funds that invest in multiple strategies to diversify risk and reduce volatility. Investments are in U.S. and non-U.S. markets. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.
- (b) These funds are hedge funds that invest in multiple fund investments managed by external investment advisors that pursue a variety of absolute return strategies. This includes non-traditional investment strategies that utilize a variety of securities and financial instruments and employ sophisticated trading and portfolio management techniques. They seek, over time, to achieve net returns commensurate with the long-run return on public equities with half the volatility of and low correlation to the equity markets. Investments are in U.S. and non-U.S. markets. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.
- (c) This fund’s investment objective is to achieve capital appreciation through a balanced level of risk primarily by allocating assets to a select number of fundamental long/short equity and credit-focused managers. Underlying investments are in U.S. and non-U.S. markets. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.
- (d) This is a portfolio of core real estate, which is comprised of participating mortgage loans and equity real estate investments. The fund is diversified by property type and geographic location. The valuation has been estimated based on the net asset value per share.
- (e) This is a limited partnership to capitalize on changing market conditions or temporary inefficiencies resulting in opportunistic investments in stressed or dislocated areas of the market. The Foundation committed \$6,750,000 with funding beginning in 2015. The fund term is ten years.
- (f) This is a limited partnership designed to invest in distressed opportunities and special situations in public and private companies, primarily in North America and Europe. The fund term is five years, and there is the potential for two additional 18- month periods. The Foundation committed \$1,500,000.

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**9. FAIR VALUE MEASUREMENTS – CONTINUED**

The following table presents information about the Foundation’s investments that have fair values estimated using net asset value per share as of December 31, 2017:

	<b>Fair Value Measurement of Investments That Calculate Net Asset Value</b>			
	<b>Fair Value 2017</b>	<b>Unfunded Commitments 2017</b>	<b>Redemption Frequency (If Currently Eligible)</b>	<b>Redemption Notice Period</b>
<b>Alternative Investments</b>				
Hedge Funds (a)	\$ 1,110,677	\$ -	Quarterly	95 days
Hedge Funds (a)	2,492,485	-	Quarterly	100 days
Hedge Funds (b)	146,088	-	Quarterly	95 days
Hedge Funds (c)	12,873,852	-	Semi-annually	105 days
Real Estate (d)	7,755,373	-	Quarterly	60 days
Limited Partnership (e)	4,312,314	3,175,292	Currently ineligible	
Limited Partnership (f)	357,025	1,200,000	Currently ineligible	
<b>Total</b>	<b>\$ 29,047,814</b>	<b>\$ 4,375,292</b>		

- (a) These funds are hedge funds that invest in multiple strategies to diversify risk and reduce volatility. Investments are in U.S. and non-U.S. markets. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.
- (b) These funds are hedge funds that invest in multiple fund investments managed by external investment advisors that pursue a variety of absolute return strategies. This includes non-traditional investment strategies that utilize a variety of securities and financial instruments and employ sophisticated trading and portfolio management techniques. They seek, over time, to achieve net returns commensurate with the long-run return on public equities with half the volatility of and low correlation to the equity markets. Investments are in U.S. and non-U.S. markets. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.
- (c) This fund’s investment objective is to achieve capital appreciation through a balanced level of risk primarily by allocating assets to a select number of fundamental long/short equity and credit-focused managers. Underlying investments are in U.S. and non-U.S. markets. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.
- (d) This is a portfolio of core real estate, which is comprised of participating mortgage loans and equity real estate investments. The fund is diversified by property type and geographic location. The valuation has been estimated based on the net asset value per share.
- (e) This is a limited partnership to capitalize on changing market conditions or temporary inefficiencies resulting in opportunistic investments in stressed or dislocated areas of the market. The Foundation committed \$6,750,000 with payments beginning in 2017. The fund term is ten years.
- (f) This is a limited partnership designed to invest in distressed opportunities and special situations in public and private companies, primarily in North America and Europe. The fund term is five years, and there is the potential for two additional 18- month periods. The Foundation committed \$1,500,000.

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**10. ENDOWMENTS**

The Foundation's endowments consist of individual funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, 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.

**Interpretation of Relevant Law**

UPMIFA requires the purchasing power of donor-restricted endowment funds to be preserved, absent explicit donor stipulations to the contrary. The Board of Directors has determined that the majority of the Foundation's contributions and net assets are subject to the terms of the Foundation's bylaws and do not meet the definition of endowment under UPMIFA. Certain contributions are received subject to other gift instruments or specific agreements with the Foundation.

Under the terms of the Foundation's bylaws, the Board of Directors has the ability to distribute as much of the corpus of any trust or separate gift, device, bequest, or fund as the Board of Directors in its sole discretion shall determine. As a result of the ability to distribute the corpus, all contributions not classified as net assets with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

In accordance with the *Not-for-Profit Entities* Topic 958 of the FASB Accounting Standards Codification (ASC), the Foundation had one underwater endowment at December 31, 2018.

Historic Gift Amount of Underwater Endowment	\$ 50,000
Underwater (Deficiency) Amount	<u>(2,050)</u>
Fair Value of Underwater Endowment	<u>\$ 47,950</u>

The endowment that became underwater due to investment losses was placed on an appropriations hold by the Foundation's Investment Committee until such time as the fund balance can recover its historic gift value and provide a sufficient reserve that preserves its long-term purchasing power. The Board has charged the Investment Committee with the periodic review of underwater endowments to determine when an appropriations hold can be released.

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**10. ENDOWMENTS – CONTINUED**

The following depicts the endowment funds, as well as the activity for the endowment funds, for the year ended December 31, 2018:

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ 81,759,762	\$ 17,757,841	\$ 99,517,603
Interest and dividends, net of investment expenses	1,143,876	18,719	1,162,595
Net depreciation	(5,297,201)	(1,431,638)	(6,728,839)
Contributions	4,096,303	1,050,103	5,146,406
Amounts appropriated for expenditure	(3,898,084)	(350,040)	(4,248,124)
Other changes – payments on pledges	294,778	(294,778)	-
Transfers/adjustments	3,078,634	-	3,078,634
Change in endowment net assets	(581,694)	(1,007,634)	(1,589,328)
Endowment net assets at end of year	\$ 81,178,068	\$ 16,750,207	\$ 97,928,275

The following depicts the endowment funds, as well as the activity for the endowment funds, for the year ended December 31, 2017:

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ 72,334,102	\$ 17,212,290	\$ 89,546,392
Interest and dividends, net of investment expenses	852,123	7,200	859,323
Net appreciation	7,540,007	1,140,051	8,680,058
Contributions	4,747,987	15,850	4,763,837
Amounts appropriated for expenditure	(4,258,866)	(360,951)	(4,619,817)
Other changes – payments on pledges	256,599	(256,599)	-
Transfers/adjustments	287,810	-	287,810
Change in endowment net assets	9,425,660	545,551	9,971,211
Endowment net assets at end of year	\$ 81,759,762	\$ 17,757,841	\$ 99,517,603

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**10. ENDOWMENTS – CONTINUED**

The following depicts the endowment net asset composition by type of fund as of December 31, 2018:

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
Donor-designated endowment funds	\$ -	\$ 15,955,884	\$ 15,955,884
Other endowment funds:			
Donor-advised	12,358,851		12,358,851
Designated	15,034,396	-	15,034,396
50 <sup>th</sup> anniversary catalyst	7,551,485	34,200	7,585,685
Scholarship	3,951,904	-	3,951,904
Community – unrestricted	1,627,147	-	1,627,147
Field of interest	9,098,852	760,123	9,858,975
	<u>49,622,635</u>	<u>794,323</u>	<u>50,416,958</u>
Board-designated endowment funds	<u>31,555,433</u>	<u>-</u>	<u>31,555,433</u>
	<u>\$ 81,178,068</u>	<u>\$ 16,750,207</u>	<u>\$ 97,928,275</u>

Other endowment funds include funds that are subject to the Foundation's spending policy under the gift agreement.

The following depicts the endowment net asset composition by type of fund as of December 31, 2017:

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
Donor-designated endowment funds	\$ -	\$ 17,718,740	\$ 17,718,740
Other endowment funds:			
Donor-advised	10,923,532	-	10,923,532
Designated	16,648,010	-	16,648,010
50 <sup>th</sup> anniversary catalyst	7,982,685	-	7,982,685
Scholarship	55,852	-	55,852
Community – unrestricted	2,120,463	-	2,120,463
Field of interest	9,473,093	16,850	9,489,943
	<u>47,203,635</u>	<u>16,850</u>	<u>47,220,485</u>
Board-designated endowment funds	<u>34,556,127</u>	<u>22,251</u>	<u>34,578,378</u>
	<u>\$ 81,759,762</u>	<u>\$ 17,757,841</u>	<u>\$ 99,517,603</u>

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**10. ENDOWMENTS – CONTINUED**

In addition to endowment net assets, the Foundation also manages other non-endowed funds. The following table summarizes all Foundation net assets as of December 31, 2018:

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
Endowment funds	\$ 81,178,068	\$ 16,750,207	\$ 97,928,275
Non-endowment funds:			
Donor-advised	87,239,127	725,130	87,964,257
Designated	3,081,451	-	3,081,451
Community catalyst	2,154,610	106,622	2,261,232
Field of interest	687,852	74,450	762,302
Scholarship	1,135,963	-	1,135,963
Other	2,181,680	10,000	2,191,680
	<u>96,480,683</u>	<u>916,202</u>	<u>97,396,885</u>
Charitable gift annuities	-	124,741	124,741
Split-interest agreements	-	2,694,993	2,694,993
	<u>\$ 177,658,751</u>	<u>\$ 20,486,143</u>	<u>\$ 198,144,894</u>

In addition to endowment net assets, the Foundation also manages other non-endowed funds. The following table summarizes all Foundation net assets as of December 31, 2017:

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
Endowment funds	\$ 81,759,762	\$ 17,757,841	\$ 99,517,603
Non-endowment funds:			
Donor-advised	95,200,895	-	95,200,895
Designated	3,164,553	-	3,164,553
Community catalyst	2,290,728	141,522	2,432,250
Field of interest	609,844	-	609,844
Scholarship	1,293,342	-	1,293,342
Other	1,657,471	20,000	1,677,471
	<u>104,216,833</u>	<u>161,522</u>	<u>104,378,355</u>
Charitable gift annuities	-	184,027	184,027
Split-interest agreements	-	2,127,844	2,127,844
	<u>\$ 185,976,595</u>	<u>\$ 20,231,234</u>	<u>\$ 206,207,829</u>

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM**  
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**10. ENDOWMENTS – CONTINUED**

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. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

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 to achieve its long-term objectives within prudent risk parameters.

The current spending policy for grantmaking is to distribute a maximum annual amount of 5% of the quarterly balance of the trailing 12 quarters. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets, as well as to provide additional real growth through new gifts and investment returns.

**11. ADMINISTRATIVE AND FIDUCIARY FEES**

The Foundation charges an administrative fee to the various grantmaking funds to cover its operating expenses. The fee is withdrawn from the funds at the beginning of each calendar year and is calculated based on the average daily balance of the prior year's fair market value.

The fee of each donor-advised and donor-designated fund is based on the fair market value on an annual basis as follows: 1% on the first \$1,000,000, .75% on the next \$1,000,000, .50% on the next \$1,000,000, and .25% on the remaining balance over \$3,000,000. The unrestricted and general field of interest funds are assessed at 1.15% of the market value. Customized field of interest funds that require a separate grant process are assessed on a tiered scale: 1.50% on the first \$2,000,000, 1.25% on the next \$1,000,000, and 1.15% on the next \$2,000,000. The fee from the community catalyst funds is calculated at 1.00% of the market value. Scholarship funds that support the General Scholarship Pool or a Custom Scholarship Fund are assessed a 2% fee. Those that offer scholarships through a Designated Fund are assessed the normal Designated Fund tiered fee beginning at 1%.

The administrative fee for agency endowment funds opened on or before December 31, 2010, is assessed as follows: .60% on the first \$1,000,000 and .50% on the remaining balance. For those funds established after January 1, 2011, the first \$1,000,000 is assessed at .75%, and over that at .60%. For any donor-advised, designated, or agency endowment fund over \$10,000,000, the fee will be determined on an individual basis. The minimum administrative fee charged to any individual fund is \$250. In addition, each fund pays an investment management fee to the respective financial institution.

**THE COMMUNITY FOUNDATION OF GREATER BIRMINGHAM  
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## **12. RETIREMENT PLAN**

The Foundation sponsors a 403(b) retirement plan. All employees of the Foundation who work 20 hours or more per week are eligible to participate. The Foundation makes contributions to the plan at the rate of 5% of salary for each employee, who meets the minimum requirement of one year of service and 20 hours of service per week; however, the Foundation does not match any employee contributions. Retirement plan expense for the year ended December 31, 2018, was \$47,696 (\$40,268 in 2017).

## **13. NET ASSETS WITHOUT DONOR RESTRICTIONS**

Periodically, the Foundation may receive assets where the fund agreement or the gift instrument is silent regarding items such as the fund type, fund purpose, how assets may be spent or how grants will be made from the fund. These assets are used to create funds known as Board-Designated funds and are governed by the respective policy. The Board may also designate funds to serve the operating needs of the Foundation or to support special initiatives. At December 31, 2018, the Board of Directors had designated both endowed and non-endowed net assets without donor restrictions totaling \$33,360,317 for the following purposes:

Designated for Competitive Grantmaking and Initiatives related to a Field of Interest – \$1,481,560 of endowed funds to be used for Competitive Grantmaking in specific fields of interest. Annual funding is determined using the Foundation’s spending policy, which ensures the assets remain in perpetuity.

Designated for Unrestricted Competitive Grantmaking and Initiatives – \$25,215,060 consisting of both endowed and non-endowed unrestricted funds designated by the Board for the perpetual support of Competitive Grantmaking. Annual funding is determined using the Foundation’s spending policy, which ensures the assets remain in perpetuity.

Designated for Scholarships – \$52,846 designated for scholarships to Birmingham area students.

Designated for Grantmaking in a Specific Field of Interest – \$204,773 limited to programs related to specific fields of interest. Cannot be used for Competitive Grantmaking.

Designated for Catalyst Grantmaking and Initiatives – \$344,431 designated for special transformational projects approved by the Board.

Designated for the Long-term Benefit of the Named Beneficiary – \$5,671,379 in endowed funds to be used for the sole purpose of supporting the designated charitable organizations.

Designated for Operating Reserves – \$390,268 in cash reserves set aside by the Board to be drawn upon in the event of financial distress or an immediate liquidity need.

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**14. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions due to time or purpose at December 31 are designated for the following purposes:

	<u>2018</u>	<u>2017</u>
Art and culture	\$ 39,515	\$ 45,904
Education	28,019	317,281
Environmental	-	3,140
Health and welfare	84,869	666,145
Human services	38,212	55,757
Religious	25,380	33,399
Donor-advised	3,434,952	993,330
Community funds for competitive grantmaking	981,771	1,087,077
50 <sup>th</sup> anniversary catalyst	140,825	141,522
Leadership/operating	-	22,102
	<u>\$ 4,773,543</u>	<u>\$ 3,365,657</u>

Earnings from restricted in perpetuity net assets at December 31 are designated for the following purposes:

	<u>2018</u>	<u>2017</u>
Community funds for competitive grantmaking	\$ 2,427,426	\$ 2,702,766
Human services	8,285,174	9,162,811
Health and welfare	5,000,000	5,000,000
	<u>\$ 15,712,600</u>	<u>\$ 16,865,577</u>

**15. COMMITMENTS**

In June 2012, the Foundation entered into a 60-month operating lease agreement for its current office space, which expired in July 2017. Under fully executed lease amendments, the Foundation exercised its option and signed lease extensions taking it through July 2020. Rent expense for 2018 totaled \$106,771 (\$101,827 in 2017). The Foundation expects to incur future minimum lease payments under this operating lease as follows:

2019	\$ 106,692
2020	<u>62,237</u>
	<u>\$ 168,929</u>