

SOUTHFACE ENERGY INSTITUTE, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

**Year Ended December 31, 2019
(With Comparative Totals for 2018)**

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Santi & Associates, PC
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors of
Southface Energy Institute, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Southface Energy Institute, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southface Energy Institute, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Southface Energy Institute, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Alpharetta, Georgia
August 12, 2020

SOUTHFACE ENERGY INSTITUTE, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2019
(With Comparative Totals for 2018)

ASSETS		
	2019	2018
Current Assets		
Cash and cash equivalents:		
Unrestricted	\$ 3,852,390	\$ 3,592,286
Restricted endowment	19,269	724
Accounts receivable	665,809	463,778
Investments:		
Unrestricted	235,960	209,220
Restricted endowment	1,159,791	1,011,401
Prepaid expenses	23,228	27,175
Total Current Assets	5,956,447	5,304,584
Property and Equipment - at cost		
Southface Energy and Environmental Resource Center	1,087,167	1,087,167
Eco Office Building	2,675,352	2,675,352
Land	1,172,149	-
SWEET Center	284,162	284,162
Leasehold improvements	92,713	92,713
Equipment	202,722	215,203
Computer equipment	131,521	145,698
Furniture and fixtures	26,730	26,730
Vehicles	83,912	94,929
	5,756,428	4,621,954
Less accumulated depreciation	(3,406,862)	(3,301,255)
	2,349,566	1,320,699
Other Asset		
Deposits	3,000	3,000
Total Assets	\$ 8,309,013	\$ 6,628,283

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

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Accounts payable	\$ 171,015	\$ 84,438
Accrued compensation	251,788	200,181
Accrued expenses	5,245	8,153
Deferred revenue	<u>2,450,121</u>	<u>1,474,666</u>
Total Current Liabilities	<u>2,878,169</u>	<u>1,767,438</u>
Long-Term Liabilities		
Note payable	<u>400,000</u>	<u>-</u>
Net Assets		
Without donor restrictions	1,152,535	1,726,734
With donor restrictions	<u>3,878,309</u>	<u>3,134,111</u>
	<u>5,030,844</u>	<u>4,860,845</u>

Total Liabilities and Net Assets	\$ 8,309,013	\$ 6,628,283
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SOUTHFACE ENERGY INSTITUTE, INC.

STATEMENT OF ACTIVITIES

**Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	Without Donor Restrictions	With Donor Restrictions	Total	
			2019	2018
Support and Revenue				
Program revenue	\$ 1,672,248	\$ 4,086,767	\$ 5,759,015	\$ 4,378,387
Land Campaign contributions	-	400,000	400,000	200,000
Donations	43,073	-	43,073	60,656
Membership dues	37,578	-	37,578	43,601
Sponsorships	25,114	116,500	141,614	142,762
Investment income (loss), net	75,297	166,935	242,232	(17,098)
In-kind contributions	103,422	-	103,422	-
Other income	5,200	-	5,200	3,650
Gain on disposal of asset	5,312	-	5,312	-
Net assets released from restrictions	4,026,004	(4,026,004)	-	-
Total Support and Revenue	5,993,248	744,198	6,737,446	4,811,958
Expenses				
Program services	5,318,234	-	5,318,234	4,166,559
General and administrative	771,178	-	771,178	404,795
Fundraising	478,035	-	478,035	206,856
Total Expenses	6,567,447	-	6,567,447	4,778,210
Change in Net Assets	(574,199)	744,198	169,999	33,748
Net Assets				
Beginning of Year	1,726,734	3,134,111	4,860,845	4,827,097
End of Year	\$ 1,152,535	\$ 3,878,309	\$ 5,030,844	\$ 4,860,845

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

SOUTHFACE ENERGY INSTITUTE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019		
	Program Services	General and Administrative	Fundraising
Salaries and wages	\$ 1,708,565	\$ 1,325,653	\$ 167,253
Payroll taxes	141,532	70,937	13,297
Employee benefits	-	312,076	-
Charitable grants	963,497	-	-
Contract labor	607,284	87,790	36,608
Professional fees	-	55,357	-
Supplies and equipment	101,677	44,166	53,259
Rent and equipment and facility rentals	4,207	55,212	22,026
Printing, photocopying, and photography	8,996	14,816	5,354
Postage and delivery	326	2,960	4,480
Travel	56,472	1,542	599
Repairs and maintenance	-	77,250	115
Utilities	-	40,020	-
Insurance	-	76,198	-
Staff development	51,431	9,988	843
Bank and credit card fees	-	32,018	-
Fees, licenses, and permits	107,936	96,012	4,043
Taxes	-	2,553	-
Advertising	36,907	9,170	620
Depreciation	-	143,282	-
Interest	-	4,443	-
Bad debt	-	7,027	1,650
Overhead allocation	1,529,404	(1,697,292)	167,888
Total Expenses	\$ 5,318,234	\$ 771,178	\$ 478,035

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

Total	2018
\$ 3,201,471	\$ 2,808,466
225,766	209,274
312,076	277,723
963,497	-
731,682	549,836
55,357	53,710
199,102	150,289
81,445	83,860
29,166	28,837
7,766	7,812
58,613	58,689
77,365	57,827
40,020	41,541
76,198	70,338
62,262	48,514
32,018	22,400
207,991	139,121
2,553	2,018
46,697	19,023
143,282	143,059
4,443	-
8,677	5,873
-	-
\$ 6,567,447	\$ 4,778,210

SOUTHFACE ENERGY INSTITUTE, INC.

STATEMENT OF CASH FLOWS

**Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
Cash Flow from Operating Activities		
Change in net assets	\$ 169,999	\$ 33,748
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	143,282	143,059
Realized and unrealized (gain) loss on investments	(142,796)	111,183
Gain on disposal of asset	(5,312)	-
(Increase) Decrease in:		
Accounts receivable	(202,031)	209,693
Other receivables	-	1,412
Prepaid expenses	3,947	(21,619)
Increase (Decrease) in:		
Accounts payable	86,577	35,538
Accrued compensation	51,607	42,651
Accrued expenses	(2,908)	8,153
Deferred revenue	975,455	287,442
Net cash provided by operating activities	<u>1,077,820</u>	<u>851,260</u>
Cash Flow from Investing Activities		
Proceeds from sale of investments	71,180	500,000
Purchase of investments	(103,514)	(270,020)
Proceeds from disposal of asset	5,312	-
Purchase of property and equipment	<u>(772,149)</u>	<u>(10,439)</u>
Net cash provided by (used in) investing activities	<u>(799,171)</u>	<u>219,541</u>
Net Increase in Cash, Cash Equivalents, and Restricted Cash	278,649	1,070,801
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	<u>3,593,010</u>	<u>2,522,209</u>
Cash, Cash Equivalents, and Restricted Cash at End of Year	<u><u>\$ 3,871,659</u></u>	<u><u>\$ 3,593,010</u></u>

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

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Southface Energy Institute, Inc. (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity.

1. Nature of Organization

The mission of the Organization is to promote sustainable homes, workplaces, and communities through education, research, advocacy, and technical assistance.

2. Basis of Presentation

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities*. ASC 958 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two classes of net assets. A description of the two classes of net assets follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to or are no longer subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

Net Assets With Donor Restrictions

Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are recorded as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization has adopted a policy to classify donor restricted contributions as with donor restrictions even if those donor restrictions were met in the year the contributions were received.

3. Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. Under this method, revenue is recognized when earned and expenses are recognized when incurred.

4. Use of 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 and disclosures. Actual results could differ from those estimates.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

5. Cash and Cash Equivalents

For the purposes of the statement of financial position and the statement of cash flows, the Organization considers all cash on hand, highly liquid bank deposits, and short-term debt securities with an original maturity of three months or less to be cash or cash equivalents.

6. Accounts Receivable

The Organization provides an allowance for doubtful accounts equal to the estimated uncollectible accounts receivable. The Organization's estimate is based on historical collection experience and a review of the current status of accounts receivable. All accounts or portions thereof deemed to be uncollectable are charged to allowance for doubtful accounts. Accounts are generally written off when twelve months delinquent. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change. Accounts receivable is presented net of an allowance for doubtful accounts of \$20,000 at December 31, 2019. Bad debt expense for the year ended December 31, 2019 was \$8,677.

7. Contributions

Unconditional contributions, those that do not include a measurable performance-related or other barrier or are those in which the Organization has limited discretion over how the contribution should be spent, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Contributions that include a measurable barrier or those for which the Organization has limited discretion over how the contribution should be spent and a right of return or release from future obligations are recorded as conditional contributions. Conditional contributions are not recognized until they become unconditional, that is, when the conditions surrounding the indications of the barrier have been met.

8. Investments

Investments consist of mutual funds and shares of common stock of several publicly traded companies. These investments are equity securities reported at fair value, with unrealized gains and losses included on the statement of activities. The basis in determining unrealized gains and losses is the difference between book value and fair value of each security at year end. Fair values have been determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market. The method used to determine cost when calculating realized gains or losses when securities are sold is the specific identification method. Realized gains and losses flow through to the Organization's annual support and revenue.

In aggregate, these investments had an original cost of \$1,268,833, and a market value of \$1,395,751 at December 31, 2019. The unrealized gains for these investments were \$126,918 at December 31, 2019. Additionally, for the year ended December 31, 2019, there were realized gains of \$15,878, and custodial and investment advisory fees were \$8,152.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

9. Property and Equipment

Property and equipment are stated at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally using the straight-line method.

The estimated useful lives in determining depreciation are:

	<u>Years</u>
Southface Energy and Environmental Resource Center	10 - 20
Eco Office Building	20
SWEET Center	3
Leasehold improvements	20
Equipment	5 - 10
Computer equipment	5
Software	3
Furniture and fixtures	7
Vehicles	5

Expenditures for property and equipment and for renewals or improvements, which extend the original estimated economic life of the asset and are \$2,500 or greater, are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. When an asset is sold or otherwise disposed, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

Depreciation expense for the year ended December 31, 2019 was \$143,282.

Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose.

10. Donated Services

Many volunteers have made significant contributions of their time to develop and promote the programs of the Organization. The value of these donated services is not included in the accompanying financial statements, as such services do not create or enhance non-financial assets or require specialized skills.

11. Revenue from Service Contracts and Grant Agreements

The Organization recognizes revenue on service contracts and grant agreements ratably over applicable contract periods or as services, stipulated in the contract and grant agreements, are performed and at an amount that reflects the consideration to which the Organization expects to be entitled to in exchange for transferring services to a customer. The Organization will allocate the transaction price of the contract or agreement to the specific performance obligations based on the contract or agreement. The Organization recognizes revenue when the performance obligations are met and delivered to the customer. Amounts billed and collected before the performance obligations are met are included in deferred revenue.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

12. Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$46,697 for the year ended December 31, 2019.

13. Prior Year Information

The financial statements include certain prior year summarized comparative totals. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2018, from which the summarized totals were derived. Certain reclassifications of prior year comparative totals have been made in order to conform to the current year presentation. These changes did not affect net assets.

14. Income Taxes

Southface Energy Institute, Inc., a nonprofit organization operating under Section 501(c)(3) of the Internal Revenue Code, is exempt from federal, state, and local income taxes and, accordingly, no provision for income taxes is included in the accompanying financial statements for the Organization.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by the Internal Revenue Service and Georgia Department of Revenue. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2016.

15. Subsequent Events

Subsequent events have been evaluated through August 12, 2020, which is the date the financial statements were available to be issued.

16. New Accounting Pronouncements

In November 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires presentation of total change in cash, cash equivalents, restricted cash, and restricted cash equivalents for the period in the statement of cash flows. ASU No. 2016-18 is effective for all other entities, excluding public business entities, for fiscal years beginning after December 31, 2018 and should be applied using a retrospective transition method to each period presented. The Organization has adopted ASU No. 2016-18 as of January 1, 2019 and has applied the changes retrospectively to all periods presented.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

16. New Accounting Pronouncements, continued

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive revenue recognition model for all contracts with customers. Under this new guidance, an entity will recognize revenue to depict the transfer of promised goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. ASU No. 2014-09 may be adopted either retrospectively or on a modified retrospective basis. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Topic 606: Deferral of Effective Date*, which delayed the effective date for nonpublic entities to fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization has adopted ASU No. 2014-09 on a modified retrospective basis as of January 1, 2019, and the adoption of the ASU did not have a material effect on the Organization's financial condition, results of operations, or cash flows.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires entities to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Additionally, ASU No. 2018-08 modifies the simultaneous release option by allowing a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. ASU No. 2018-08 should be applied on a modified prospective basis and is effective for fiscal years beginning after December 31, 2018 for resource recipients. The Organization has adopted ASU No. 2018-08 as of January 1, 2019.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which affects current U.S. GAAP primarily as it relates to the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU No. 2016-01 also supersedes the guidance that requires classification of equity securities with readily determinable fair values into different categories and recognition of changes in fair value of available-for-sale securities in changes in net assets. ASU No. 2016-01 is effective for all other entities, excluding public business entities, for fiscal years beginning after December 15, 2018 and should be applied by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The Organization has adopted ASU No. 2016-01 as of January 1, 2019, and the adoption of the ASU did not result in a cumulative-effect adjustment.

NOTE B – FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and accounts receivable.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE B – FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK, continued

The Organization maintains its cash and cash equivalent accounts with highly rated financial institutions. At times, such deposits may be in excess of federally insured limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000 per institution, or the Securities Investor Protection Corporation (SIPC), up to \$500,000 per institution, at December 31, 2019. At December 31, 2019, the Organization had uninsured cash deposits totaling \$4,320,120. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risk of loss.

Accounts receivable consists of grants and contracts billed for services rendered and expenses incurred. Credit risk with respect to accounts receivable is limited due to the number and credit worthiness of the government entities and organizations from whom the amounts are due. The Organization does not generally require collateral for revenues billed or services provided. The U.S. Department of Energy (DOE) comprised 13% of accounts receivable at December 31, 2019.

Approximately 5% of the Organization's support was provided by allocations from the DOE for the year ended December 31, 2019. Total funds received from the DOE were \$265,554 for the year ended December 31, 2019. The Organization also received 61% of its support from two grantors for the year ended December 31, 2019.

The Organization depends heavily on grants from and contracts with the federal government and various state governments. Accordingly, the Organization's ability to fund its programs and services will be affected by national economic conditions and national and state energy policies.

NOTE C – FAIR VALUE OF INVESTMENTS

The following is the major category of assets and liabilities measured at fair value on a recurring basis during the year ended December 31, 2019, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Description	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at December 31, 2019
Mutual funds	\$ 1,395,222	\$ -	\$ -	\$ 1,395,222
Common stock	529	-	-	529
Total	<u>\$ 1,395,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,395,751</u>

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE D – LINE OF CREDIT

The Organization has an uncommitted revolving line of credit with Bank of America, N.A. The Organization may request a loan advance at any time, up to an aggregate amount of \$1,000,000 or lesser amount that the bank may, in its sole discretion, approve. Any advances will bear interest at the LIBOR rate plus a number of percentage points given by the bank and are due on demand. Balances outstanding are secured by the securities accounts of the Organization established, held, or maintained at Merrill Lynch. The line of credit will terminate upon written request from the Organization or at the bank's discretion. There were no amounts outstanding under this line of credit at December 31, 2019.

NOTE E – NOTE PAYABLE

On September 17, 2019, the Organization entered into a \$400,000 note payable with Truist Bank, formerly SunTrust Bank, for the purchase of land, which the Southface Energy and Environmental Resource Center and Eco Office Building are located on. Beginning on October 17, 2019, the note requires interest only payments for 24 consecutive months and bears interest at the one-month LIBOR rate plus 2.5% (4.27% at December 31, 2019). Beginning on October 17, 2021, the note requires 35 consecutive principal and interest monthly payments in the amount of \$11,111 with a final payment of the unpaid balance, plus any accrued interest, due on September 17, 2024. The note is secured by all assets of the Organization. At December 31, 2019, the outstanding balance on this note was \$400,000.

Maturities of long-term debt are as follows:

Year Ended December 31,	
2020	\$ -
2021	29,174
2022	119,850
2023	125,060
2024	125,916
	<u>\$ 400,000</u>

NOTE F – COMMITMENTS AND CONTINGENCIES

The Organization has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. Management is not aware of any potential losses from such disallowances and believes that reimbursements, if any, would not be material.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE F – COMMITMENTS AND CONTINGENCIES, continued

The Organization entered into an industrial, operating lease agreement with DME Holdings, Inc. for the SWEET Center. The lease requires monthly rental payments of \$3,659, plus taxes and insurance, and increases by an additional 3% each year. The lease expires on December 31, 2022, and the monthly payment for this lease was \$4,574, inclusive of taxes and insurance, at December 31, 2019. Rent expense under this agreement for the year ended December 31, 2019 was \$54,263.

The Organization entered into an operating lease for two office copiers. The monthly payment for these copiers is \$461, and the lease expires in November 2021. Office copier lease expense incurred during the year ended December 31, 2019 was \$6,586.

Future minimum lease payments are as follows:

Year Ended December 31,	
2020	\$ 67,549
2021	68,405
2022	<u>64,689</u>
	<u>\$ 200,643</u>

NOTE G – RETIREMENT PLAN

The Organization sponsors a salary reduction contribution plan pursuant to Section 403(b) of the Internal Revenue Code. The plan covers all employees, except interns, who work at least twenty hours per week. The plan allows the Organization to make discretionary contributions each year and allocate the contributions based on each participant's proportionate share of total compensation paid during the year to all participants in the plan. The Organization contributed \$45,553 to the plan during the year ended December 31, 2019.

NOTE H – ACCOUNTING AND REPORTING FOR ENDOWMENT

The Endowment

The Organization's endowment consists of an individual fund established for maintaining and updating technologies in the Eco Office and supporting building science research related to the Eco Office. Its endowment includes only donor-restricted endowment funds. As required by generally accepted accounting principles, 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.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE H – ACCOUNTING AND REPORTING FOR ENDOWMENT, continued

Interpretation of Relevant Laws

The Organization is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions because those net assets are time restricted until the Board appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of the Organization has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment fund, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization 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 Organization and the donor-restricted endowment fund.
- (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 Organization.
- (7) The investment policies of the Organization.

Endowment Net Asset Composition by Type of Fund as of December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	-	-
Accumulated investment gains	-	245,855	245,855
Term endowment	-	933,205	933,205
	<u>-</u>	<u>933,205</u>	<u>933,205</u>
Total endowment funds	<u>\$ -</u>	<u>\$ 1,179,060</u>	<u>\$ 1,179,060</u>

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE H – ACCOUNTING AND REPORTING FOR ENDOWMENT, continued

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,012,125	\$ 1,012,125
Investment return, net	-	166,935	166,935
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	-	-
Other changes:			
Transfer to create Board-designated endowment funds	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,179,060</u>	<u>\$ 1,179,060</u>

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2019.

Return Objectives and Risk Parameters

The Organization 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. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that reach a target rate of return as set forth by the Board or above median returns generated by comparable benchmark portfolios while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization 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.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE H – ACCOUNTING AND REPORTING FOR ENDOWMENT, continued

Spending Policy and How Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution, depending on fiscal need, each year pending approval by the Eco Office Committee. In establishing this policy, the Organization will consider the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to continue to grow. The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

NOTE I – FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the program activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services while other costs are directly charged to the functions they benefit. Expenses have been classified based on actual direct expenditures and costs allocations based on estimates made by the Organization. In addition, overhead is allocated based on information obtained from the Organization's preparation of the model incurred cost proposal.

NOTE J – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2019:

Subject to expenditure for specified purpose:

The Kendeda Fund	\$ 1,143,497
JPB Foundation	1,017,894
Land Campaign	249,128
Energy Foundation	151,182
The Turner Foundation	70,000
Strong, Prosperous, and Resilient Communities Challenge	47,367
The AEC Trust	10,000
Visionary Dinner	5,000
EarthCraft Communities	3,500
East Point Environmental Collective	<u>1,681</u>

2,699,249

Endowment fund:

Updating technologies and supporting building science related to the Eco Office	<u>1,179,060</u>
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Total net assets with donor restrictions	<u><u>\$ 3,878,309</u></u>
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SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE K – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors during the year ended December 31, 2019 are as follows:

Purpose restrictions accomplished:

The Kendeda Fund	\$ 1,856,580
JPB Foundation	868,148
Land Campaign	798,192
Energy Foundation	269,093
The Turner Foundation	141,250
EarthCraft Multifamily	32,789
Strong, Prosperous, and Resilient Communities Challenge	29,133
The AEC Trust	25,000
Oak Hill Foundation	5,000
East Point Environmental Collective	<u>819</u>

4,026,004

Release of appropriated endowment amounts with purpose restrictions

-

\$ 4,026,004

NOTE L – BOARD-DESIGNATED NET ASSETS

The Organization's Board has designated, from net assets without donor restrictions, net assets for the following purpose as of December 31, 2019:

Emerging Leaders program	<u><u>\$ 221,397</u></u>
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NOTE M – LAND AVAILABLE FOR SALE

The Organization owns .12 acres of land located on Colmer Avenue in Atlanta, Georgia. The land was donated to the Organization. The land is available for sale; however, the size and location of the lot make this land difficult to sell. The fair market value of the land cannot be accurately determined and as a result it is not listed on the statement of financial position.

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE N – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization has a policy to manage its liquidity by structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization has maintained sufficient reserves that are invested in short-term investment accounts. Occasionally, the Board will designate a portion of any operating surplus to reserves for unanticipated liquidity needs. There is a fund established by the Board, as well as an available line of credit, that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities.

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	\$ 3,871,659
Accounts receivable	685,809
Investments	<u>1,395,751</u>
 Total financial assets	 5,953,219
 Less amounts unavailable for general expenditures within one year:	
Board-designated funds	(221,397)
Donor imposed restrictions	(2,699,249)
Endowment funds	<u>(1,179,060)</u>
	<u><u>\$ 1,853,513</u></u>

The Organization's endowment fund is a donor-restricted endowment; therefore, since income from this endowment is restricted for a specific purpose, it is not available for general expenditures.

NOTE O – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,852,390	\$ 3,592,286
Restricted cash included in assets restricted to endowment	<u>19,269</u>	<u>724</u>
	<u><u>\$ 3,871,659</u></u>	<u><u>\$ 3,593,010</u></u>

SOUTHFACE ENERGY INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE O – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION, continued

Cash paid during the year ended December 31, 2019:

Interest	<u>\$ 4,443</u>
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All interest incurred was expensed.

Noncash investing and financing transactions:

In-kind contributions:

Contract labor	\$ 83,372
Supplies	8,077
Landscaping	6,700
Minor equipment	4,778
Software fees	<u>495</u>
	<u>\$ 103,422</u>

Property acquired through long-term financing	<u>\$ 400,000</u>
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NOTE P – SUBSEQUENT RECEIPT OF PAYCHECK PROTECTION PROGRAM LOAN

In response to the coronavirus (COVID-19) pandemic, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020 and the Paycheck Protection Program (PPP) and Health Care Enhancement Act (the Enhancement Act) on April 24, 2020. Under the PPP, as part of the CARES Act and Enhancement Act, the U.S. government has authorized forgivable loans to small businesses and nonprofit entities to pay their employees during the COVID-19 pandemic. Subsequently, on April 30, 2020, the Organization received a PPP loan for \$609,500 and will be formally applying for loan forgiveness once all terms have been satisfied.

As a result of the COVID-19 pandemic, economic uncertainties have arisen which could potentially have a negative impact on the performance of the Organization, though the potential impact is currently unknown.