

**THE BAPTIST FOUNDATION OF ALABAMA**

Financial Statements

December 31, 2010 and 2009

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1121 Riverchase Office Road  
Birmingham, Alabama 35244  
(205) 982-5500  
(205) 982-5501 fax  
www.bmss.com

Keith M. Barfield, CPA  
Donald W. Murphy, Jr., CPA  
John P. Shank, CPA, CVA  
Steven N. Smith, CPA  
Myra S. Roberts, CPA, CVA, AEP  
A. Jackson Knight, CPA, CVA  
David R. King  
Derrel G. Curry, CPA  
Ross B. Mendheim, CPA

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of The Baptist Foundation of Alabama, as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Baptist Foundation of Alabama as of December 31, 2009, were audited by other auditors whose report dated August 31, 2010, expressed an unqualified opinion on those statements. As discussed in Note 2 to the financial statements, the Foundation has restated its 2009 financial statements related to an estate contribution. The other auditors reported on the financial statements before the restatement.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Baptist Foundation of Alabama, as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments to the 2009 financial statements to restate balances related to an estate contribution as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to The Baptist Foundation of Alabama's 2009 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2009 financial statements as a whole.

*Barfield, Murphy, Shank & Smith, P.C.*

Birmingham, Alabama  
September 8, 2011

**THE BAPTIST FOUNDATION OF ALABAMA**

Statements of Financial Position

December 31, 2010 and 2009

	<b>2010</b>	<b>Restated 2009</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 845,437	\$ 2,741,013
Accounts receivable	44,222	47,345
Bequests receivable	-	720,585
Investments	46,366,009	42,878,113
Investments held in charitable remainder trusts and gift annuities	171,738	170,756
Investments held for others	159,384,934	149,516,815
Property and equipment, net	2,285,839	2,337,536
	<u>\$ 209,098,179</u>	<u>\$ 198,412,163</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 205,533	\$ 129,485
Liabilities associated with charitable remainder trusts and gift annuities	72,492	81,035
Investments held for others	159,384,934	149,516,815
	<u>159,662,959</u>	<u>149,727,335</u>
Net assets		
Unrestricted	18,557,894	18,374,137
Temporarily restricted	7,668,305	7,376,340
Permanently restricted	23,209,021	22,934,351
	<u>49,435,220</u>	<u>48,684,828</u>
	<u>\$ 209,098,179</u>	<u>\$ 198,412,163</u>

See notes to financial statements.

**THE BAPTIST FOUNDATION OF ALABAMA**

Statements of Activities

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>Restated 2009</u>
<b>Change in Unrestricted Net Assets</b>		
Support and revenue		
Contributions	\$ 19,063	\$ 1,031,891
Cooperative program	426,830	454,314
Investment fee income	685,526	416,542
Rental and other income	58,949	66,506
Interest and dividend income	300,714	436,206
Realized gain (loss) on investments	296,989	(668,112)
Unrealized gain on investments	401,052	1,665,876
Net assets released from restriction	1,391,000	1,230,617
	<u>3,580,123</u>	<u>4,633,840</u>
Functional expenses		
Program services		
Disbursements for beneficiaries and others	1,523,096	1,740,592
Trust administration	633,874	549,589
Eldercare	337,149	272,183
General and administrative	321,567	417,930
Development	580,680	507,347
	<u>3,396,366</u>	<u>3,487,641</u>
Net asset reclassification based on change in law	-	(2,738,528)
Change in unrestricted net assets	183,757	(1,592,329)
<b>Change in Temporarily Restricted Net Assets</b>		
Contributions	159,528	74,846
Interest and dividend income	444,459	525,520
Realized gain (loss) on investments	507,145	(1,319,015)
Unrealized gain on investments	571,833	3,866,014
Net asset reclassification based on change in law	-	2,738,528
Net assets released from restriction	(1,391,000)	(1,230,617)
Change in temporarily restricted net assets	291,965	4,655,276
<b>Change in Permanently Restricted Net Assets</b>		
Contributions	265,145	2,417,585
Change in value of assets and liabilities associated with charitable remainder trusts and gift annuities	9,525	(466,646)
Change in permanently restricted net assets	<u>274,670</u>	<u>1,950,939</u>
Change in net assets	750,392	5,013,886
Net assets - beginning of year	<u>48,684,828</u>	<u>43,670,942</u>
Net assets - end of year	<u>\$ 49,435,220</u>	<u>\$ 48,684,828</u>

See notes to financial statements.

**THE BAPTIST FOUNDATION OF ALABAMA**

Statements of Cash Flows

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>Restated 2009</u>
<b>Operating Activities</b>		
Change in net assets	\$ 750,392	\$ 5,013,886
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	119,197	114,983
Gain on sale of property and equipment	-	(4,500)
Realized (gain) loss on investments	(804,134)	1,987,127
Unrealized gain on investments	(972,885)	(5,531,890)
Contributions restricted for long-term purposes	(265,145)	(2,417,585)
Changes in operating assets and liabilities		
Accounts receivable	3,123	418
Bequests receivable	720,585	(370,585)
Accounts payable and accrued expenses	76,048	104,764
Value of assets and liabilities associated with charitable remainder trusts and gift annuities	(9,525)	466,646
Net cash used in operating activities	<u>(382,344)</u>	<u>(636,736)</u>
<b>Investing Activities</b>		
Proceeds from sale of investments	2,314,427	3,137,021
Purchases of investments	(4,025,304)	(4,715,805)
Purchases of investments held in charitable remainder trusts and gift annuities	-	(100,000)
Proceeds from sale of property and equipment	-	4,500
Purchases of property and equipment	(67,500)	(33,573)
Net cash used in investing activities	<u>(1,778,377)</u>	<u>(1,707,857)</u>
<b>Financing Activities</b>		
Proceeds from contributions restricted for investment in permanent endowment	265,145	2,417,585
Net cash provided by financing activities	<u>265,145</u>	<u>2,417,585</u>
Net (decrease) increase in cash and cash equivalents	(1,895,576)	72,992
Cash and cash equivalents - beginning of year	<u>2,741,013</u>	<u>2,668,021</u>
Cash and cash equivalents - end of year	<u>\$ 845,437</u>	<u>\$ 2,741,013</u>

See notes to financial statements.

## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2010 and 2009

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Activities

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

#### Basis of Accounting

The financial statements of The Baptist Foundation of Alabama have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements were approved and authorized by management as available to be issued on September 8, 2011.

#### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Basis of Financial Statement Presentation

The Foundation reports contributions held for specified beneficiaries for which the Foundation has not been granted variance power as an asset and a liability. In addition, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted Net Assets* are those currently available at the direction of the board for use in the Foundation's operations and those resources invested in property and equipment.

*Temporarily Restricted Net Assets* are those which are stipulated by donors for specific operating purposes and those that are time restricted.

*Permanently Restricted Net Assets* are those contributed with donor restrictions requiring they be held in perpetuity.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restriction.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

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

**Cash and Cash Equivalents**

The Foundation considers all instruments with an original maturity of three months or less to be cash and cash equivalents. Cash equivalents consist of money market securities stated at fair value which approximates cost. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. These amounts represent actual account balances held by financial institutions at the end of the period, and unlike the balance reported in the financial statements, the account balances do not reflect timing delays inherent in reconciling items such as outstanding checks and deposits in transit. The Foundation has never experienced any losses related to these balances. All of the Foundation's non-interest bearing cash balances were fully insured at December 31, 2010 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and the Foundation's non-interest bearing cash balances may again exceed federally insured limits.

**Receivables**

The Foundation reports receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance or against earnings. Based on management's review, no allowance for doubtful accounts was considered necessary at December 31, 2010 or 2009.

**Property and Equipment**

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

## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

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

#### Investments

Investments in debt and equity securities with readily determinable fair values are recorded at fair market value. Investments without readily determinable fair values are recorded at cost, or if impaired, at estimated realizable value. The Foundation's investments as of December 31, 2010 and 2009 consisted primarily of funds invested in fixed income and equity securities. Expenses relating to investment income, including custodial fees and investment advisory fees, totaled \$93,370 and \$59,838 during the years ended December 31, 2010 and 2009, respectively, and have been netted against investment income in the accompanying statements of activities.

Many of the Foundation's investments are converted to units of common funds administered by the Foundation. These common funds include the assets of charitable trusts and other specified types of assets authorized by law to be jointly invested, as well as general endowment funds. Investments held for others include obligations consisting of units of these common funds, as well as other specific identified assets. These assets are segregated from general assets of the Foundation. The common funds that are managed by the Foundation are exempt from registration requirements of both state and federal securities law.

The units of common funds included in the Foundation's investments are reported at their net asset value, equal to the Foundation's pro-rata share of the total fair value of the underlying securities comprising the common funds.

The Foundation invests in several different hedge funds and managed futures funds for further diversification of its common funds. Hedge fund investments are more illiquid than traditional investments, often taking three to twelve months to redeem, pending the completion of the final year-end close of the fund. Managed futures are typically uncorrelated to the returns of stocks and bonds.

The Board of Directors and management of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the endowment funds and (b) the value of subsequent contributions to the endowment funds and accumulations to the permanent endowment funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Foundation and the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the investment policies of the Foundation.

## **THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

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

#### **Investments - Continued**

The Investment Committee is charged with the fiduciary responsibility of preserving and augmenting the value of the endowments, included in investments, thereby sustaining the ability to generate financial support to further the mission of the Foundation. The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that cover the spending policy payout percentage (4.25% at December 31, 2010 and 2009), administrative expenses plus the rate of inflation while assuming a moderate level of investment risk.

#### **Irrevocable Trust Agreements**

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

#### **Charitable Remainder Trusts and Gift Annuities**

The Foundation has various charitable gift annuity and charitable remainder trust agreements under which the donor makes a charitable donation, the remainder interest of which is irrevocably dedicated to specified beneficiaries. These agreements require periodic payments to the donor, or their designated non-charitable beneficiary (the annuitant), of a specified sum until the death of the annuitant. The objective in investing the assets received from the donor is to provide income and growth to meet the periodic annuity payments required. At the death of the annuitant, the remaining balances are disbursed as designated by the donor in the agreement.

The Foundation also has certain charitable remainder trusts and gift annuities under which the ultimate beneficiary is the Foundation. The assets associated with these agreements are recorded as assets of the Foundation. The present value of the anticipated annuity to be paid is reflected as a liability of the Foundation and the excess amounts are reported as temporarily and permanently restricted net assets. Charitable remainder trust and gift annuity contracts in which the Foundation has a beneficial interest totaled \$171,738 and \$170,756 at December 31, 2010 and 2009, respectively. The liability associated with these charitable remainder trusts and gift annuities is estimated as the present value of expected future cash outflows, over the terms of the agreements, using discount rates of 6% to 8% and applicable mortality tables and totaled \$72,492 and \$81,035 at December 31, 2010 and 2009, respectively.

## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

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

#### Investments Held for Others

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

Investments held for others also include investments of various charitable gift annuities and charitable remainder trusts. As provided in the governing instruments, the assets and liabilities of these trusts and annuities are restricted for the exclusive benefit of their respective beneficiaries.

#### Concentration of Credit Risk

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

The Foundation investment allocations are predetermined by the Investment Committee and communicated to its investment brokerage firm. At December 31, 2010 and 2009, approximately 40% and 31%, respectively, of the Foundation assets were invested in two fixed income mutual funds.

#### Income Taxes

The Foundation is organized as a not-for-profit corporation under the Alabama Nonprofit Corporation Act. Additionally, the Foundation has been granted tax-exempt status by the Internal Revenue Service for income tax purposes. The Foundation is subject to unrelated business income tax (UBIT) only if it engages in activities subject to the UBIT regulations.

The Foundation adopted the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 740, *Accounting for Uncertainty in Income Taxes*, effective January 1, 2009. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

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

**Income Taxes - Continued**

The Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements as of December 31, 2010 or 2009 based on an assessment of many factors including experience and interpretations of applicable tax laws.

**Fair Value**

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

**Reclassifications**

Certain prior year balances have been reclassified to conform to current year presentation. The reclassifications had no effect on total net assets or change in net assets as of and for the year ended December 31, 2009, as previously reported.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

**NOTE 2 - RESTATEMENT**

During the year ended December 31, 2010, the Foundation discovered that net assets and investments held for others had been misstated in the prior year. During the year ended December 31, 2009, the Foundation became the executor of an estate and took custody of investment assets that were recorded entirely as investments held for others. However, the estate specified that a portion of the investment assets be contributed to the Foundation and the income from the investments be used for Foundation programs. Accordingly, the Foundation restated its 2009 balances. The effect of the restatement was to increase bequests receivable by \$283,500, increase investments by \$279,893, decrease investments held for others by \$279,893, and increase permanently restricted contributions and net assets by \$563,393 at December 31, 2009.

**NOTE 3 - INVESTMENTS**

Investments consisted of the following at December 31, 2010:

	<b>Fair Value</b>	<b>Cost</b>	<b>Unrealized Appreciation</b>
Cash and cash equivalents	\$ 26,392,980	\$ 26,392,980	\$ -
Fixed income securities	93,166,336	93,073,190	93,146
Limited partnerships	24,669,093	23,806,126	862,967
Mutual funds	19,279,610	16,315,702	2,963,908
Marketable equity securities	33,153,936	30,239,722	2,914,214
Mortgages and notes receivable	2,279,763	2,279,763	-
Commercial real estate	655,000	522,500	132,500
Residential real estate	2,410,701	2,319,095	91,606
Timber and timberland	2,668,000	2,348,001	319,999
Other assets	583,278	375,375	207,903
Accrued income	663,984	663,984	-
	<u>\$ 205,922,681</u>	<u>\$ 198,336,438</u>	<u>\$ 7,586,243</u>

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

Investments	\$ 46,366,009
Investments held in charitable remainder trusts and gift annuities	171,738
Investments held for others	159,384,934
	<u>\$ 205,922,681</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

**NOTE 3 - INVESTMENTS - Continued**

Investments consisted of the following at December 31, 2009:

	<b>Fair Value</b>	<b>Cost</b>	<b>Unrealized (Depreciation) Appreciation</b>
Cash and cash equivalents	\$ 26,235,887	\$ 26,235,887	\$ -
Fixed income securities	71,725,600	76,177,547	(4,451,947)
Limited partnerships	26,262,310	21,956,382	4,305,928
Mutual funds	2,361,682	2,360,853	829
Marketable equity securities	57,708,997	57,430,262	278,735
Mortgages and notes receivable	2,355,592	2,355,592	-
Commercial real estate	656,400	522,510	133,890
Residential real estate	2,048,951	1,950,425	98,526
Timber and timberland	2,238,000	1,913,001	324,999
Other assets	520,891	374,905	145,986
Accrued income	451,374	451,374	-
	<u>\$ 192,565,684</u>	<u>\$ 191,728,738</u>	<u>\$ 836,946</u>

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

Investments	\$ 42,878,113
Investments held in charitable remainder trusts and gift annuities	170,756
Investments held for others	149,516,815
	<u>\$ 192,565,684</u>

Transactions affecting assets held for others are as follows:

	<b>2010</b>	<b>2009</b>
Balance - beginning of year	\$ 149,516,815	\$ 135,270,961
Deposits and additions	14,968,788	12,904,017
Interest, dividends and amortization	3,360,808	3,151,432
Realized and unrealized gains	6,354,852	11,412,835
Disbursements for beneficiaries and other withdrawals	(14,816,329)	(13,222,430)
Balance - end of year	<u>\$ 159,384,934</u>	<u>\$ 149,516,815</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

**NOTE 4 - ENDOWMENT**

The Foundation's endowment consists of approximately 2,200 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. 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.

The following provides a description of restrictions placed on the net assets represented in the Foundation's endowment funds at December 31:

	<b>Type</b>	<b>2010</b>	<b>2009</b>
Permanently restricted	A	\$ 23,209,021	\$ 22,934,351
Temporarily restricted	B	7,668,305	7,376,340
Unrestricted	C	8,425,925	9,112,782
		<u>\$ 39,303,251</u>	<u>\$ 39,423,473</u>

Type A restrictions represent the portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA. Type B restrictions represent the portion of perpetual endowment funds subject to a time restriction under SPMIFA. Type C restrictions are the portion of the Foundation's endowment fund designated by the Board of Directors to function as endowments.

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level necessary to maintain the purchasing power of the original gift plus additions. Deficiencies of this nature are reported in unrestricted net assets and totaled \$769,069 and \$833,623 at December 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Foundation's Board of Directors.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

**NOTE 4 - ENDOWMENT - Continued**

Changes in endowment net assets consisted of the following during the years ended December 31, 2010 and 2009:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets - December 31, 2008	\$ 10,642,876	\$ 2,721,064	\$ 20,983,412	\$ 34,347,352
Net asset reclassification based on change in law	(2,738,528)	2,738,528	-	-
Endowment net assets - December 31, 2008, after reclassification	7,904,348	5,459,592	20,983,412	34,347,352
Contributions	-	74,846	2,417,585	2,492,431
Transfers to create board-designated endowment funds	83,572	-	-	83,572
Interest and dividend income	160,728	525,520	-	686,248
Realized and unrealized gains, net	1,227,945	2,546,999	-	3,774,944
Appropriation of endowment assets for expenditure	(263,811)	(1,230,617)	-	(1,494,428)
Change associated with charitable remainder trusts and gift annuities	-	-	(466,646)	(466,646)
Endowment net assets - December 31, 2009	9,112,782	7,376,340	22,934,351	39,423,473
Contributions	-	159,528	265,145	424,673
Interest and dividend income	160,558	444,459	-	605,017
Realized and unrealized gains, net	437,299	1,078,978	-	1,516,277
Appropriation of endowment assets for expenditure	(1,284,714)	(1,391,000)	-	(2,675,714)
Change associated with charitable remainder trusts and gift annuities	-	-	9,525	9,525
Endowment net assets - December 31, 2010	\$ 8,425,925	\$ 7,668,305	\$ 23,209,021	\$ 39,303,251

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

**NOTE 4 - ENDOWMENT - Continued**

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6% to 8% annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's policy of appropriating for distribution each year is 4.25% of its endowment fund's average fair value over the prior 16 quarters through the calendar year-end preceding the calendar year in which the distribution is planned. The percentage is decreased for endowments that have declined and are consequently considered deficient. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at the rate of inflation, currently an average of 2% to 3% annually, consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investments.

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land	\$ 696,687	\$ 696,687
Buildings and improvements	1,603,294	1,603,294
Furniture and fixtures	397,454	363,416
Automobiles	195,552	162,090
	<u>2,892,987</u>	<u>2,825,487</u>
Less accumulated depreciation	607,148	487,951
	<u>\$ 2,285,839</u>	<u>\$ 2,337,536</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

**NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily and permanently restricted net assets were available for the following purposes at December 31:

	<u>2010</u>	<u>2009</u>
Temporarily restricted		
Purpose restrictions		
Church loans	\$ 1,907,605	\$ 1,867,132
Scholarships	1,585,006	1,329,067
Other endowments	4,175,694	4,180,141
	<u>\$ 7,668,305</u>	<u>\$ 7,376,340</u>
Permanently restricted		
Endowments	<u>\$ 23,209,021</u>	<u>\$ 22,934,351</u>

**NOTE 7 - FAIR VALUE**

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010.

- *Cash and Cash Equivalents*: Valued at amortized cost which approximates fair value.
- *Investment Securities*: Valued based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. Securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. Government-sponsored enterprises and commercial paper are stated at cost plus accrued interest, which approximates fair value.
- *Limited Partnerships*: Valued at fair value as determined by the Foundation when quotations are not readily available due to limited market activity. In determining fair value, the Foundation utilizes valuations provided by the investment partnerships and investment advisors that consider observable and unobservable market parameters. The fair value of the Foundation's investments in investment partnerships generally represents the amount the Foundation would expect to receive if it were to liquidate its investment in the partnerships excluding any redemption charges that may apply.
- *Mortgages and Notes Receivable*: Valued based upon observable market prices of similar instruments, including bonds and loans with similar characteristics where quoted market prices are not available. If observable market prices are not available, fair value is based upon estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loan.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

**NOTE 7 - FAIR VALUE - Continued**

- *Real Estate*: Valued based upon appraisals, which utilize inputs derived from or corroborated by observable market data.

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

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

The following table sets forth, by level within the fair value hierarchy, the Foundation's investment assets at fair value, as of December 31, 2010:

	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 26,392,980	\$ 26,392,980	\$ -	\$ -
Fixed income securities	93,166,336	-	93,166,336	-
Limited partnerships	24,669,093	-	-	24,669,093
Mutual funds	19,279,610	19,279,610	-	-
Marketable equity securities	33,153,936	33,079,535	74,401	-
Mortgages and notes receivable	2,279,763	-	2,279,763	-
Commercial real estate	655,000	-	655,000	-
Residential real estate	2,410,701	-	2,410,701	-
Timber and timberland	2,668,000	-	2,668,000	-
Other assets	583,278	470	582,808	-
Accrued income	663,984	663,984	-	-
	<u>\$ 205,922,681</u>	<u>\$ 79,416,579</u>	<u>\$ 101,837,009</u>	<u>\$ 24,669,093</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

**NOTE 7 - FAIR VALUE - Continued**

The following table sets forth, by level within the fair value hierarchy, the Foundation's investment assets at fair value, as of December 31, 2009:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash and cash equivalents	\$ 26,235,887	\$ 24,751,071	\$ 1,484,816	\$ -
Fixed income securities	71,725,600	657,781	71,067,819	-
Limited partnerships	26,262,310	-	-	26,262,310
Mutual funds	2,361,682	2,361,682	-	-
Marketable equity securities	57,708,997	57,708,997	-	-
Mortgages and notes receivable	2,355,592	-	2,355,592	-
Commercial real estate	656,400	-	656,400	-
Residential real estate	2,048,951	-	2,048,951	-
Timber and timberland	2,238,000	-	2,238,000	-
Other assets	520,891	-	520,891	-
Accrued income	451,374	451,374	-	-
	<u>\$ 192,565,684</u>	<u>\$ 85,930,905</u>	<u>\$ 80,372,469</u>	<u>\$ 26,262,310</u>

The following table sets forth a summary of change in the fair value of the Foundation's level 3 assets for the years ended December 31:

	<b>2010</b>	<b>2009</b>
Balance - beginning of year	\$ 26,262,310	\$ 26,550,093
Net redemptions	(3,378,982)	(2,448,546)
Realized gains	3,529,920	145,746
Unrealized (losses) gains	(1,744,155)	2,015,017
Balance - end of year	<u>\$ 24,669,093</u>	<u>\$ 26,262,310</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

**NOTE 8 - RELATED PARTY TRANSACTIONS**

The Foundation is affiliated with the Alabama Baptist State Convention, and receives significant administrative support through the Cooperative Program of the State Board of Missions. The State Board of Missions provided \$426,830 and \$454,314 in administrative support to the Foundation during the years ended December 31, 2010 and 2009, respectively. The Foundation also administers certain assets for the State Board of Missions. As of December 31, 2010 and 2009, the Foundation held and managed funds for the State Board of Missions valued at \$6,235,541 and \$5,645,104, respectively. The Board of Directors of the Foundation elected to make contributions of undesignated earnings to the Cooperative Program administered by the State Board of Missions totaling \$206,900 and \$215,399 during the years ended December 31, 2010 and 2009, respectively.

**NOTE 9 - RETIREMENT PLAN**

The Foundation makes contributions for its employees to a defined contribution retirement plan maintained by GuideStone Financial Resources, an entity affiliated with the Southern Baptist Convention.

The Foundation makes non-matching contributions to employee accounts equal to 10% of the employee's salary. The Foundation matches employee contributions, up to 5% of the employee's salary, based on years of service. Employees are eligible for participation in the plan on the first day of employment and are fully vested on their fifth year of service. Contributions to the plan totaled \$112,848 and \$105,129 during the years ended December 31, 2010 and 2009, respectively.

The Foundation sponsors a deferred compensation plan. Deferred compensation expense totaled \$50,000 and \$104,607 during the years ended December 31, 2010 and 2009, respectively.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The Foundation leases office equipment under a noncancelable operating lease agreement expiring in September 2013. Rent expense incurred under the operating lease agreement totaled \$19,176 and \$11,186 during the years ended December 31, 2010 and 2009, respectively. At December 31, 2010, future amounts due under the noncancelable operating lease agreement for the next three years are as follows:

2011	\$	19,176
2012		19,176
2013		14,382
	\$	<u>52,734</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2010 and 2009

(Continued)

**NOTE 11 - FUNCTIONAL EXPENSES**

The cost of providing various programs and other activities has been presented on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses of the Foundation, by function, for the year ended December 31, 2010 are as follows:

	<b>Trust</b>		<b>Total</b>	<b>General and</b>		<b>Total</b>
	<b>Administration</b>	<b>Eldercare</b>	<b>Program</b>	<b>Administrative</b>	<b>Development</b>	<b>Expenses</b>
			<b>Services</b>			
Depreciation	\$ 44,103	\$ 23,840	\$ 67,943	\$ 21,455	\$ 29,799	\$ 119,197
Disbursements for beneficiaries and others	1,523,096	-	1,523,096	-	-	1,523,096
Office expense	79,422	39,536	118,958	59,929	52,505	231,392
Professional	47,174	-	47,174	70,095	-	117,269
Promotion and public relations	-	-	-	-	52,888	52,888
Salaries and benefits	452,886	248,367	701,253	156,368	418,070	1,275,691
Travel	10,289	25,406	35,695	13,720	27,418	76,833
	<u>\$ 2,156,970</u>	<u>\$337,149</u>	<u>\$ 2,494,119</u>	<u>\$ 321,567</u>	<u>\$ 580,680</u>	<u>\$ 3,396,366</u>

The expenses of the Foundation, by function, for the year ended December 31, 2009 are as follows:

	<b>Trust</b>		<b>Total</b>	<b>General and</b>		<b>Total</b>
	<b>Administration</b>	<b>Eldercare</b>	<b>Program</b>	<b>Administrative</b>	<b>Development</b>	<b>Expenses</b>
			<b>Services</b>			
Depreciation	\$ 43,694	\$ 22,997	\$ 66,691	\$ 22,997	\$ 25,296	\$ 114,984
Disbursements for beneficiaries and others	1,740,592	-	1,740,592	-	-	1,740,592
Office expense	57,144	29,931	87,075	69,953	33,605	190,633
Professional	44,147	-	44,147	70,182	-	114,329
Promotion and public relations	-	-	-	-	42,611	42,611
Salaries and benefits	393,997	200,627	594,624	239,165	388,324	1,222,113
Travel	10,607	18,628	29,235	15,633	17,511	62,379
	<u>\$ 2,290,181</u>	<u>\$272,183</u>	<u>\$ 2,562,364</u>	<u>\$ 417,930</u>	<u>\$ 507,347</u>	<u>\$ 3,487,641</u>