

**THE BAPTIST FOUNDATION OF ALABAMA**

**Financial Statements**

**December 31, 2011 and 2010**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of The Baptist Foundation of Alabama, as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years 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 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 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 audits provide 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Birmingham, Alabama  
August 31, 2012

**THE BAPTIST FOUNDATION OF ALABAMA**

Statements of Financial Position

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 898,147	\$ 845,437
Accounts receivable	41,851	44,222
Bequests receivable	202,844	-
Investments	44,977,270	46,366,009
Investments held in charitable remainder trusts and gift annuities	154,691	171,738
Investments held for others	156,221,909	159,384,934
Property and equipment, net	2,199,308	2,285,839
	<u>\$ 204,696,020</u>	<u>\$ 209,098,179</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 254,219	\$ 205,533
Liabilities associated with charitable remainder trusts and gift annuities	64,176	72,492
Investments held for others	156,221,909	159,384,934
	<u>156,540,304</u>	<u>159,662,959</u>
<b>Net assets</b>		
Unrestricted	18,115,628	19,133,377
Temporarily restricted	6,785,977	7,646,322
Permanently restricted	23,254,111	22,655,521
	<u>48,155,716</u>	<u>49,435,220</u>
	<u>\$ 204,696,020</u>	<u>\$ 209,098,179</u>

See notes to financial statements.



# THE BAPTIST FOUNDATION OF ALABAMA

## Statements of Activities

Years ended December 31, 2011 and 2010

	2011	2010
<b>Change in Unrestricted Net Assets</b>		
Support and revenue		
Contributions	\$ -	\$ 19,063
Cooperative program	416,363	426,830
Investment and administrative fee income	820,877	685,526
Trust and other income	273,935	58,949
Interest and dividend income	384,048	300,714
Realized gain on investments	144,831	296,989
Unrealized (loss) gain on investments	(780,156)	401,052
Net assets released from restriction	1,152,980	1,391,000
	<u>2,412,878</u>	<u>3,580,123</u>
Functional expenses		
Program services		
Disbursements for beneficiaries and others	1,474,138	1,523,096
Trust administration	593,300	633,874
Eldercare	316,205	337,149
General and administrative	540,276	321,567
Development	506,708	580,680
	<u>3,430,627</u>	<u>3,396,366</u>
Change in unrestricted net assets	(1,017,749)	183,757
<b>Change in Temporarily Restricted Net Assets</b>		
Contributions	5,232	159,528
Interest and dividend income	456,609	444,459
Realized gain on investments	240,993	507,145
Unrealized (loss) gain on investments	(410,199)	571,833
Net assets released from restriction	(1,152,980)	(1,391,000)
	<u>(860,345)</u>	<u>291,965</u>
Change in temporarily restricted net assets	(860,345)	291,965
<b>Change in Permanently Restricted Net Assets</b>		
Contributions	599,979	265,145
Change in value of assets and liabilities associated with charitable remainder trusts and gift annuities	(1,389)	9,525
	<u>598,590</u>	<u>274,670</u>
Change in permanently restricted net assets	598,590	274,670
Change in net assets	(1,279,504)	750,392
Net assets - beginning of year	49,435,220	48,684,828
Net assets - end of year	<u>\$ 48,155,716</u>	<u>\$ 49,435,220</u>

See notes to financial statements.

**THE BAPTIST FOUNDATION OF ALABAMA**

Statements of Cash Flows  
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>		
Change in net assets	\$ (1,279,504)	\$ 750,392
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	115,021	119,197
Gain on disposal of property and equipment	(750)	-
Realized gain on investments	(385,824)	(804,134)
Unrealized loss (gain) on investments	1,190,355	(972,885)
Contributions restricted for long-term purposes	(599,979)	(265,145)
Changes in operating assets and liabilities		
Accounts receivable	2,371	3,123
Bequests receivable	(202,844)	720,585
Accounts payable and accrued expenses	48,686	76,048
Value of assets and liabilities associated with charitable remainder trusts and gift annuities	8,731	(9,525)
Net cash used in operating activities	<u>(1,103,737)</u>	<u>(382,344)</u>
<b>Investing Activities</b>		
Proceeds from sale of investments	1,148,106	2,314,427
Purchases of investments	(563,898)	(4,025,304)
Proceeds from sale of property and equipment	10,750	-
Purchases of property and equipment	(38,490)	(67,500)
Net cash provided by (used in) investing activities	<u>556,468</u>	<u>(1,778,377)</u>
<b>Financing Activities</b>		
Proceeds from contributions restricted for investment in permanent endowment	599,979	265,145
Net cash provided by financing activities	<u>599,979</u>	<u>265,145</u>
Net increase (decrease) in cash and cash equivalents	52,710	(1,895,576)
Cash and cash equivalents - beginning of year	<u>845,437</u>	<u>2,741,013</u>
Cash and cash equivalents - end of year	<u><u>\$ 898,147</u></u>	<u><u>\$ 845,437</u></u>

See notes to financial statements.



## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2011 and 2010

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Activities

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

#### Basis of Accounting

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the financial statements, management evaluated subsequent events through August 31, 2012, the date the financial statements were available to be issued.

#### Estimates

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

#### 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, 2011 and 2010

(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, 2011 and 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, 2011 or 2010.

#### **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, 2011 and 2010

(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, 2011 and 2010 consisted primarily of funds invested in fixed income and equity securities. Expenses relating to investment income, including custodial fees and investment advisory fees, totaled \$104,762 and \$93,370 during the years ended December 31, 2011 and 2010, 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, 2011 and 2010

(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, 2011 and 2010), 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 \$154,691 and \$171,738 at December 31, 2011 and 2010, 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 \$64,176 and \$72,492 at December 31, 2011 and 2010, respectively.



## **THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2011 and 2010

(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, 2011 and 2010, approximately 38% and 40%, 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.

Tax positions are initially recognized in the financial statements when it is more likely than not that the position will be sustained upon examination by the tax authorities. The Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements as of December 31, 2011 or 2010 based on an assessment of many factors including experience and interpretations of applicable tax laws.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2011 and 2010

(Continued)

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

**Fair Value**

Financial Accounting Standards Board Accounting Standards Codification (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 maximize the use of observable inputs and minimize the use of unobservable inputs.

**Reclassifications**

During the year end December 31, 2011, management discovered that certain net assets were incorrectly classified between unrestricted, temporarily restricted and permanently restricted net assets. Accordingly, the Foundation reclassified its 2010 net asset balances. The net effect of the reclassification was to increase unrestricted net assets by \$575,483, decrease temporarily restricted net assets by \$21,983, and decrease permanently restricted net assets by \$553,500 at December 31, 2010.



**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2011 and 2010

(Continued)

**NOTE 2 - INVESTMENTS**

Investments consisted of the following at December 31, 2011:

	<b>Fair Value</b>	<b>Cost</b>	<b>Unrealized Appreciation</b>
Cash and cash equivalents	\$ 17,110,513	\$ 17,110,513	\$ -
Fixed income securities	75,007,382	74,850,093	157,289
Limited partnerships	33,708,078	33,864,688	(156,610)
Mutual funds	18,469,898	16,412,592	2,057,306
Marketable equity securities	48,180,924	47,091,334	1,089,590
Mortgages and notes receivable	2,125,119	2,125,119	-
Commercial real estate	655,000	522,500	132,500
Residential real estate	2,262,407	2,172,991	89,416
Timber and timberland	2,440,000	2,348,001	91,999
Other assets	587,121	375,376	211,745
Accrued income	807,428	807,428	-
	<u>\$ 201,353,870</u>	<u>\$ 197,680,635</u>	<u>\$ 3,673,235</u>

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

Investments	\$ 44,977,270
Investments held in charitable remainder trusts and gift annuities	154,691
Investments held for others	156,221,909
	<u>\$ 201,353,870</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2011 and 2010

(Continued)

**NOTE 2 - INVESTMENTS - Continued**

Investments consisted of the following at December 31, 2010:

	Fair Value	Cost	Unrealized (Depreciation) Appreciation
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>

Transactions affecting assets held for others are as follows:

	2011	2010
Balance - beginning of year	\$ 159,384,934	\$ 149,516,815
Deposits and additions	9,364,635	14,968,788
Interest, dividends and amortization	3,456,833	3,360,808
Realized and unrealized (losses) gains	(2,402,117)	6,354,852
Disbursements for beneficiaries and other withdrawals	(13,582,376)	(14,816,329)
Balance - end of year	<u>\$ 156,221,909</u>	<u>\$ 159,384,934</u>

# THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2011 and 2010

(Continued)

## NOTE 3 - 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:

	Type	2011	2010
Permanently restricted	A	\$ 23,254,111	\$ 22,655,521
Temporarily restricted	B	6,785,977	7,646,322
Unrestricted	C	9,862,405	10,320,876
		<u>\$ 39,902,493</u>	<u>\$ 40,622,719</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 \$1,079,224 and \$764,544 at December 31, 2011 and 2010, 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 were deemed prudent by the Foundation's Board of Directors.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2011 and 2010

(Continued)

**NOTE 3 - ENDOWMENT - Continued**

Changes in endowment net assets consisted of the following during the years ended December 31, 2011 and 2010:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets - December 31, 2009	\$ 10,401,744	\$ 7,354,357	\$ 22,380,851	\$ 40,136,952
Contributions	5,297	159,528	265,145	429,970
Interest and dividend income	158,027	444,459	-	602,486
Realized and unrealized gains, net	418,434	1,078,978	-	1,497,412
Appropriation of endowment assets for expenditure	(662,626)	(1,391,000)	-	(2,053,626)
Change associated with charitable remainder trusts and gift annuities	-	-	9,525	9,525
Endowment net assets - December 31, 2010	10,320,876	7,646,322	22,655,521	40,622,719
Contributions	17,391	5,232	599,979	622,602
Interest and dividend income	196,216	456,609	-	652,825
Realized and unrealized losses, net	(135,905)	(169,206)	-	(305,111)
Appropriation of endowment assets for expenditure	(536,173)	(1,152,980)	-	(1,689,153)
Change associated with charitable remainder trusts and gift annuities	-	-	(1,389)	(1,389)
Endowment net assets - December 31, 2011	\$ 9,862,405	\$ 6,785,977	\$ 23,254,111	\$ 39,902,493



## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2011 and 2010

(Continued)

### NOTE 3 - 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 proceeding 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 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2011	2010
Land	\$ 696,687	\$ 696,687
Buildings and improvements	1,603,295	1,603,295
Furniture and fixtures	390,829	397,454
Automobiles	185,487	195,552
	<u>2,876,298</u>	<u>2,892,988</u>
Less accumulated depreciation	676,990	607,149
	<u>\$ 2,199,308</u>	<u>\$ 2,285,839</u>

# THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2011 and 2010

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## NOTE 5 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	2011	2010
Temporarily restricted		
Purpose restrictions		
Church loans	\$ 1,944,618	\$ 1,907,605
Scholarships	1,496,612	1,903,777
Other endowments	3,344,747	3,834,940
	<u>\$ 6,785,977</u>	<u>\$ 7,646,322</u>
Permanently restricted		
Endowments	<u>\$ 23,254,111</u>	<u>\$ 22,655,521</u>

## NOTE 6 - FAIR VALUE

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the methodologies used during the years ended December 31, 2011 or 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 estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loan.
- *Real Estate*: Valued based upon appraisals, which utilize inputs derived from or corroborated by observable market data.

# THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2011 and 2010

(Continued)

## NOTE 6 - FAIR VALUE - Continued

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, 2011:

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Cash and cash equivalents	\$ 17,110,513	\$ 17,110,513	\$ -	\$ -
Fixed income securities	75,007,382	51,089	74,956,293	-
Limited partnerships	33,708,078	-	17,315,567	16,392,511
Mutual funds	18,469,898	18,469,898	-	-
Marketable equity securities	48,180,924	48,106,523	74,401	-
Mortgages and notes receivable	2,125,119	-	2,125,119	-
Commercial real estate	655,000	-	655,000	-
Residential real estate	2,262,407	-	2,262,407	-
Timber and timberland	2,440,000	-	2,440,000	-
Other assets	587,121	470	586,651	-
Accrued income	807,428	807,428	-	-
	<u>\$ 201,353,870</u>	<u>\$ 84,545,921</u>	<u>\$ 100,415,438</u>	<u>\$ 16,392,511</u>



**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2011 and 2010

(Continued)

**NOTE 6 - 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, 2010:

	<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	\$ 26,392,980	\$ 26,392,980	\$ -	\$ -
Fixed income securities	93,166,336	-	93,166,336	-
Limited partnerships	24,669,093	-	16,332,462	8,336,631
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>\$ 118,169,471</u>	<u>\$ 8,336,631</u>

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

	<b>2011</b>	<b>2010</b>
Balance - beginning of year	\$ 8,336,631	\$ -
Purchases	7,868,897	9,000,000
Unrealized gains (losses)	186,983	(663,369)
Balance - end of year	<u>\$ 16,392,511</u>	<u>\$ 8,336,631</u>

During the year ended December 31, 2011, management discovered that several investment assets were misclassified as level-three investments within the fair value hierarchy. Several of the Foundation's investments in limited partnerships are redeemable at net asset value and as such should be reported as level-two investments within the fair value hierarchy. Therefore, management reclassified the investments within the fair value hierarchy at December 31, 2010 and removed the 2010 activity from the level-three investment activity detailed above.

## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2011 and 2010

(Continued)

### NOTE 7 - 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 \$416,363 and \$426,830 in administrative support to the Foundation during the years ended December 31, 2011 and 2010, respectively. The Foundation also administers certain assets for the State Board of Missions. As of December 31, 2011 and 2010, the Foundation held and managed funds for the State Board of Missions valued at \$6,700,006 and \$6,235,541, 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 \$186,051 and \$206,900 during the years ended December 31, 2011 and 2010, respectively.

### NOTE 8 - 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 \$119,188 and \$112,848 during the years ended December 31, 2011 and 2010, respectively.

The Foundation sponsors a deferred compensation plan. Deferred compensation expense totaled \$50,000 during the years ended December 31, 2011 and 2010. The deferred compensation liability totaled \$222,356 and \$172,966 at December 31, 2011 and 2010, respectively.

### NOTE 9 - 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 during each of the years ended December 31, 2011 and 2010. At December 31, 2011, future amounts due under the noncancelable operating lease agreement for the next two years are as follows:

2012	\$	19,176
2013		14,382
	\$	<u>33,558</u>



# THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2011 and 2010

(Continued)

## NOTE 10 - 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, 2011 are as follows:

	Trust		Total				Total
	Administration	Eldercare	Program	General and	Development		Expenses
			Services	Administrative			
Depreciation	\$ 39,107	\$ 23,004	\$ 62,111	\$ 23,004	\$ 29,906	\$	115,021
Disbursements for							
beneficiaries and others	1,474,138	-	1,474,138	-	-		1,474,138
Office expense	82,286	45,842	128,128	83,154	49,035		260,317
Professional	54,682	60	54,742	33,168	36,453		124,363
Promotion and public							
relations	-	2,192	2,192	1,042	19,782		23,016
Salaries and benefits	413,194	230,497	643,691	392,171	338,557		1,374,419
Travel	4,031	14,610	18,641	7,737	32,975		59,353
	<u>\$ 2,067,438</u>	<u>\$316,205</u>	<u>\$ 2,383,643</u>	<u>\$ 540,276</u>	<u>\$ 506,708</u>	\$	<u>3,430,627</u>

The expenses of the Foundation, by function, for the year ended December 31, 2010 are as follows:

	Trust		Total				Total
	Administration	Eldercare	Program	General and	Development		Expenses
			Services	Administrative			
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>