

THE BAPTIST FOUNDATION OF ALABAMA

Financial Statements

December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The Baptist Foundation of Alabama, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 The Baptist Foundation of Alabama as of December 31, 2018 and 2017, and the changes in its net assets, its functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BMSS, LLC

Birmingham, Alabama
August 6, 2019

THE BAPTIST FOUNDATION OF ALABAMA
 Statements of Financial Position
 December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 1,719,557	\$ 1,365,796
Accounts receivable	12,172	24,676
Investments	55,211,152	57,216,631
Investments held for others	187,984,604	199,631,284
Property and equipment, net	1,834,431	1,872,481
	\$ 246,761,916	\$ 260,110,868
 Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 749,985	\$ 713,054
Investments held for others	187,984,604	199,631,284
	188,734,589	200,344,338
 Net assets		
Without donor restrictions	25,061,406	26,465,342
With donor restrictions	32,965,921	33,301,188
	58,027,327	59,766,530
	\$ 246,761,916	\$ 260,110,868

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statement of Activities
Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	\$ 648,959	\$ 1,782,530	\$ 2,431,489
Cooperative program	136,425	-	136,425
Investment and administrative fee income	1,040,660	-	1,040,660
Investment loss	(481,748)	(976,086)	(1,457,834)
Trust and other income	23,680	-	23,680
Net assets released from restriction	1,141,711	(1,141,711)	-
Total support and revenue	<u>2,509,687</u>	<u>(335,267)</u>	<u>2,174,420</u>
Expenses			
Program services	2,365,590	-	2,365,590
Supporting activities	1,548,033	-	1,548,033
Total expenses	<u>3,913,623</u>	<u>-</u>	<u>3,913,623</u>
Change in net assets	(1,403,936)	(335,267)	(1,739,203)
Net assets - beginning of year	<u>26,465,342</u>	<u>33,301,188</u>	<u>59,766,530</u>
Net assets - end of year	<u>\$ 25,061,406</u>	<u>\$ 32,965,921</u>	<u>\$ 58,027,327</u>

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statement of Activities
Year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	\$ 677,810	\$ 2,154,960	\$ 2,832,770
Cooperative program	126,156	-	126,156
Investment and administrative fee income	986,886	-	986,886
Investment income	2,973,232	2,216,920	5,190,152
Trust and other income	302,148	9,503	311,651
Net assets released from restriction	1,030,952	(1,030,952)	-
Total support and revenue	<u>6,097,184</u>	<u>3,350,431</u>	<u>9,447,615</u>
Expenses			
Program services	2,722,898	-	2,722,898
Supporting activities	1,364,916	-	1,364,916
Total expenses	<u>4,087,814</u>	<u>-</u>	<u>4,087,814</u>
Change in net assets	2,009,370	3,350,431	5,359,801
Net assets - beginning of year	<u>24,455,972</u>	<u>29,950,757</u>	<u>54,406,729</u>
Net assets - end of year	<u>\$ 26,465,342</u>	<u>\$ 33,301,188</u>	<u>\$ 59,766,530</u>

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA
Statement of Functional Expenses
Year ended December 31, 2018

	Program Services			Supporting Activities			Total
	Trust Administration	Eldercare	Total Programming	General and Administrative	Development	Supporting Expenses	
Depreciation	\$ 32,429	\$ 11,947	\$ 44,376	\$ 16,214	\$ 24,748	\$ 40,962	\$ 85,338
Disbursements for beneficiaries and others	1,450,274	-	1,450,274	-	-	-	1,450,274
Office expense	98,208	31,282	129,490	77,021	68,062	145,083	274,573
Professional	58,189	-	58,189	50,553	27,273	77,826	136,015
Promotion and public relations	-	3,430	3,430	2,590	29,224	31,814	35,244
Salaries and benefits	503,755	167,971	671,726	499,429	697,454	1,196,883	1,868,609
Travel	2,405	5,700	8,105	8,122	47,343	55,465	63,570
	\$ 2,145,260	\$ 220,330	\$ 2,365,590	\$ 653,929	\$ 894,104	\$ 1,548,033	\$ 3,913,623

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA
Statement of Functional Expenses
Year ended December 31, 2017

	Program Services			Supporting Activities		
	Trust Administration	Eldercare	Total Programming	General and Administrative	Development	Total Supporting Expenses
Depreciation	\$ 32,849	\$ 12,102	\$ 44,951	\$ 16,424	\$ 25,068	\$ 41,492
Disbursements for beneficiaries and others	1,729,720	-	1,729,720	-	-	-
Office expense	98,618	32,654	131,272	83,920	70,277	154,197
Professional	60,922	-	60,922	38,977	24,767	63,744
Promotion and public relations	-	2,053	2,053	3,144	17,146	20,290
Salaries and benefits	582,027	160,873	742,900	488,519	559,637	1,048,156
Travel	3,560	7,520	11,080	5,349	31,688	37,037
	\$ 2,507,696	\$ 215,202	\$ 2,722,898	\$ 636,333	\$ 728,583	\$ 1,364,916
						\$ 4,087,814

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ (1,739,203)	\$ 5,359,801
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	85,338	86,443
Gain on disposal of property and equipment	(7,157)	(280,799)
Investment loss (income)	1,457,834	(5,190,152)
Contributions restricted for long-term purposes	(1,782,530)	(2,154,960)
Changes in operating assets and liabilities		
Accounts receivable	12,504	568,858
Accounts payable and accrued expenses	36,931	112,537
Value of assets and liabilities associated with charitable remainder trusts and gift annuities	-	145,886
Net cash used in operating activities	(1,936,283)	(1,352,386)
Investing Activities		
Proceeds from sale of investments	2,306,709	4,656,613
Purchases of investments	(1,759,064)	(4,721,418)
Proceeds from disposal of property and equipment	19,319	348,441
Purchases of property and equipment	(59,450)	(36,832)
Net cash provided by investing activities	507,514	246,804
Financing Activities		
Proceeds from contributions restricted for investment in permanent endowment	1,782,530	2,154,960
Net cash provided by financing activities	1,782,530	2,154,960
Net increase in cash and cash equivalents	353,761	1,049,378
Cash and cash equivalents - beginning of year	1,365,796	316,418
Cash and cash equivalents - end of year	\$ 1,719,557	\$ 1,365,796

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

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 and Financial Statement Presentation

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 6, 2019, the date the financial statements were available to be issued.

The Foundation reports contributions held for specified beneficiaries for which the Foundation has not been granted variance power as an asset and a liability. In addition, the Foundation reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions are those currently available at the direction of the Board for use in the Foundation's operations, invested in property and equipment, or designated by the Board of Directors or management to function as endowments.

Net assets with donor restrictions are those with donor stipulations for specific operating purposes, time restrictions or requirements to be held in perpetuity.

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.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(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 balances reported in the financial statements, the account balances do not reflect timing delays inherent in reconciling items such as outstanding checks and deposits in transit. The Foundation has never experienced any losses related to these balances.

Receivables

The Foundation reports receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance or against earnings. Based on management's review, no allowance for doubtful accounts was considered necessary at December 31, 2018 or 2017.

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 years.

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 consist primarily of funds invested in fixed-income and equity securities and hedge funds.

Many of the Foundation's investments are converted to units of common funds administered by the Foundation. These common funds include the assets of charitable trusts and other specified types of assets authorized by law to be jointly invested, as well as general endowment funds. Investments held for others include obligations consisting of units of these common funds, as well as other specifically identified assets. These assets are segregated from general assets of the Foundation.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments - Continued

The units of common funds included in the Foundation's investments are reported at their net asset value, equal to the Foundation's pro-rata share of the total fair value of the underlying securities comprising the common funds. The common funds that are managed by the Foundation are exempt from registration requirements of both state and federal securities law.

The Foundation invests in several alternative investments for further diversification of its common funds. Alternative investments are more illiquid than traditional investments, often taking three to twelve months or more to redeem, pending the completion of the final year-end close of the fund.

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

The Investment Committee is charged with the fiduciary responsibility of preserving and augmenting the value of the endowments, included in investments, thereby sustaining the ability to generate financial support to further the mission of the Foundation. The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that cover the spending policy payout percentage (generally 4.25% at December 31, 2018 and 2017; adjusted to 2.40% and 2.67% at December 31, 2018 and 2017, respectively, for endowments with deficiencies), administrative expenses, plus the rate of inflation while assuming a moderate level of investment risk.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Irrevocable Trust Agreements

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

Investments Held for Others

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

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, 2018 and 2017, approximately 15% of total investments was invested in limited partnerships managed by one private equity firm.

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, 2018 or 2017 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, 2018 and 2017

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value

The established framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price the Foundation would expect to receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

NOTE 2 - LIQUIDITY AND AVAILABILITY

The following table reflects the Foundation's financial assets, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year. Such amounts include those set aside for long-term investing in the board-designated endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or board-designated endowment for general expenditure within one year have not been subtracted as unavailable.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 2 - LIQUIDITY AND AVAILABILITY - Continued

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, consisted of the following at December 31:

	2018	2017
Financial assets	\$ 244,927,485	\$ 258,238,387
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions		
Restricted by donor with purpose restrictions	1,106,410	1,081,294
Subject to appropriation and satisfaction of donor restrictions	31,859,511	32,219,894
Investments held for others	187,984,604	199,631,284
Board designations		
Endowment funds	4,543,542	4,889,260
Amounts set aside for:		
Operating reserves	1,297,964	1,322,068
Church estate stewardship	503,187	685,333
Church loans	1,485,775	1,451,266
	228,780,993	241,280,399
Financial assets available to meet cash needs for general expenditures within one year	\$ 16,146,492	\$ 16,957,988

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 3 - INVESTMENTS

Investments consisted of the following at December 31, 2018:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and cash equivalents	\$ 20,946,269	\$ 20,949,121	\$ (2,852)
Fixed income securities	56,503,666	57,460,899	(957,233)
Alternative investments	74,983,860	72,120,961	2,862,899
Mutual funds	49,141,078	44,066,533	5,074,545
Marketable equity securities	34,370,068	34,040,660	329,408
Mortgages and notes receivable	1,142,133	1,142,133	-
Commercial real estate	255,000	255,000	-
Residential real estate	1,645,235	1,645,235	-
Timber and timberland	1,868,800	1,868,800	-
Other assets	1,855,940	473,820	1,382,120
Accrued income	483,707	483,707	-
	<u>\$ 243,195,756</u>	<u>\$ 234,506,869</u>	<u>\$ 8,688,887</u>

Investments consisted of the following at December 31, 2017:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and cash equivalents	\$ 19,643,450	\$ 19,643,450	\$ -
Fixed income securities	60,392,373	60,933,477	(541,104)
Limited partnerships	74,222,091	61,168,478	13,053,613
Mutual funds	60,470,482	45,772,092	14,698,390
Marketable equity securities	36,245,092	31,937,399	4,307,693
Mortgages and notes receivable	1,256,280	1,256,280	-
Commercial real estate	255,000	255,000	-
Residential real estate	1,224,883	1,117,731	107,152
Timber and timberland	1,578,000	1,536,309	41,691
Other assets	1,119,209	663	1,118,546
Accrued income	441,055	441,055	-
	<u>\$ 256,847,915</u>	<u>\$ 224,061,934</u>	<u>\$ 32,785,981</u>

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 3 - INVESTMENTS - Continued

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

	<u>2018</u>	<u>2017</u>
Investments	\$ 55,211,152	\$ 57,216,631
Investments held for others	187,984,604	199,631,284
	<u>\$ 243,195,756</u>	<u>\$ 256,847,915</u>

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

	<u>2018</u>	<u>2017</u>
Balance - beginning of year	\$ 199,631,284	\$ 189,030,213
Deposits and additions	13,726,649	9,380,508
Investment (loss) income	(6,102,022)	18,361,136
Disbursements for beneficiaries and other withdrawals	(19,271,307)	(17,140,573)
Balance - end of year	<u>\$ 187,984,604</u>	<u>\$ 199,631,284</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 696,687	\$ 696,687
Buildings and improvements	1,543,295	1,543,295
Furniture and fixtures	373,588	373,588
Automobiles	196,929	178,023
	<u>2,810,499</u>	<u>2,791,593</u>
Less accumulated depreciation	976,068	919,112
	<u>\$ 1,834,431</u>	<u>\$ 1,872,481</u>

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 5 - BOARD-DESIGNATED NET ASSETS

The Foundation's governing board has designated from net assets without donor restrictions of \$25,061,406 and \$26,465,342 at December 31, 2018 and 2017, respectively, net assets for the following purposes:

	<u>2018</u>	<u>2017</u>
Board-designated endowment funds		
Purchase of property and equipment	\$ 127,957	\$ 181,383
Disaster relief	28,236	30,048
Scholarships	125,711	133,674
General purposes	4,261,638	4,544,155
	<u>4,543,542</u>	<u>4,889,260</u>
Amounts set aside for:		
Operating reserves	1,297,964	1,322,068
Church estate stewardship	503,187	685,333
Church loans	1,485,775	1,451,266
	<u>3,286,926</u>	<u>3,458,667</u>
	<u>\$ 7,830,468</u>	<u>\$ 8,347,927</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2018</u>	<u>2017</u>
Subject to expenditure for a specific purpose		
Eldercare	\$ 277,922	\$ 269,822
Church loans	828,488	811,472
	<u>1,106,410</u>	<u>1,081,294</u>

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS - Continued

	2018	2017
Subject to the Foundation's spending policy and appropriation		
Net accumulated investment income and gains, which, once appropriated, are expendable to support:		
General purposes	\$ 968,255	\$ 1,926,971
Churches and associations	49,955	58,907
Children's home	106,341	207,133
Education	24,789	33,925
Eldercare	5,262	24,655
Missions	43,032	73,545
Scholarships	1,971,084	2,798,337
Other purposes	26,197	179,506
Investment in perpetuity, which, once appropriated, is expendable to support:		
General purposes	7,951,185	7,850,176
Churches and associations	89,328	89,328
Children's home	1,486,159	1,486,159
Education	131,143	131,143
Eldercare	395,467	395,467
Missions	830,787	830,787
Scholarships	14,700,780	13,230,307
Other purposes	3,079,747	2,903,548
	31,859,511	32,219,894
	\$ 32,965,921	\$ 33,301,188

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors and consisted of the following at December 31:

	2018	2017
Satisfaction of program restrictions	\$ 1,579	\$ 21,391
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	1,140,132	1,009,561
	\$ 1,141,711	\$ 1,030,952

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 7 - ENDOWMENT

The Foundation's endowment consists of individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowment). Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions and consisted of the following at December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,543,542	\$ -	\$ 4,543,542
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	28,664,596	28,664,596
Net accumulated investment income and gains	-	3,194,915	3,194,915
	\$ 4,543,542	\$ 31,859,511	\$ 36,403,053

Net assets associated with endowment funds consisted of the following at December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,889,260	\$ -	\$ 4,889,260
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	26,916,915	26,916,915
Net accumulated investment income and gains	-	5,302,979	5,302,979
	\$ 4,889,260	\$ 32,219,894	\$ 37,109,154

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 7 - ENDOWMENT - Continued

Changes in endowment net assets consisted of the following during the years ended December 31, 2018 and 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - December 31, 2016	\$ 4,619,647	\$ 28,777,886	\$ 33,397,533
Contributions	34,000	2,315,318	2,349,318
Investment income	447,413	2,288,518	2,735,931
Appropriation of endowment assets for expenditure	(211,800)	(1,161,828)	(1,373,628)
Endowment net assets - December 31, 2017	4,889,260	32,219,894	37,109,154
Contributions	-	1,792,654	1,792,654
Investment losses	(80,119)	(855,535)	(935,654)
Appropriation of endowment assets for expenditure	(265,599)	(1,297,502)	(1,563,101)
Endowment net assets - December 31, 2018	\$ 4,543,542	\$ 31,859,511	\$ 36,403,053

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6.00% to 8.00% annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's policy of appropriating for distribution each year is 4.25% of its endowment fund's average fair value over the prior 16 quarters through the calendar year end preceding the calendar year in which the distribution is planned. The percentage is decreased to 2.40% (2.67% during the year ended December 31, 2017) for endowments that have declined and are consequently considered deficient. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at the rate of inflation, currently an average of 2.00% to 3.00% annually, consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investments.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 7 - ENDOWMENT - Continued

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level necessary to maintain the purchasing power of the original gift plus additions. Deficiencies of this nature, called underwater endowment funds, resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Foundation's Board of Directors. Underwater endowment funds consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Fair value of assets	\$ 8,570,304	\$ 3,806,355
Original gift plus additions	9,177,802	4,145,466
	<u>\$ (607,498)</u>	<u>\$ (339,111)</u>

NOTE 8 - FAIR VALUE

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the methodologies used during the years ended December 31, 2018 or 2017.

- *Cash and Cash Equivalents:* Valued at amortized cost which approximates fair value.
- *Investment Securities:* Valued based on quoted market prices, when available, or market prices provided by recognized broker dealers. Securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. Government-sponsored enterprises and commercial paper are stated at cost plus accrued interest, which approximates fair value.
- *Mortgages and Notes Receivable:* Valued based upon estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loan.
- *Real Estate:* Valued based upon appraisals, which utilize inputs derived from or corroborated by observable market data.
- *Alternative Investments:* Valued based on the net asset value of the investment (or its equivalent) without further adjustment (unless management determines that the net asset value is deemed to be not reflective of fair value) since the alternative investments are investment companies that have calculated net asset value per share in accordance with the specialized accounting guidance for investment companies. The fair value of such investments generally represents the amount the Foundation would expect to receive if it were to liquidate its investment in the partnerships excluding any redemption charges that may apply.

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

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 8 - FAIR VALUE - Continued

The following table sets forth, by level within the fair value hierarchy, the Foundation's investment assets at fair value, as of December 31, 2018:

	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	\$ 20,946,269	\$ 20,946,269	\$ -	\$ -
Fixed income securities	56,503,666	56,503,666	-	-
Mutual funds	49,141,078	49,141,078	-	-
Marketable equity securities	34,370,068	34,084,567	285,501	-
Mortgages and notes receivable	1,142,133	-	1,142,133	-
Commercial real estate	255,000	-	255,000	-
Residential real estate	1,645,235	30,569	1,614,666	-
Timber and timberland	1,868,800	-	1,868,800	-
Other assets	1,855,940	463	1,855,477	-
Accrued income	483,707	483,707	-	-
	<hr/> 168,211,896	<hr/> 161,190,319	<hr/> 7,021,577	<hr/> -
Alternative investments	74,983,860	-	-	-
	<hr/> \$ 243,195,756	<hr/> \$ 161,190,319	<hr/> \$ 7,021,577	<hr/> \$ -

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 8 - FAIR VALUE - Continued

The following table sets forth, by level within the fair value hierarchy, the Foundation's investment assets at fair value, as of December 31, 2017:

	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	\$ 19,643,450	\$ 19,643,450	\$ -	\$ -
Fixed income securities	60,392,373	60,392,373	-	-
Mutual funds	60,470,482	60,470,482	-	-
Marketable equity securities	36,245,092	36,245,092	-	-
Mortgages and notes receivable	1,256,280	-	1,256,280	-
Commercial real estate	255,000	-	255,000	-
Residential real estate	1,224,883	-	1,224,883	-
Timber and timberland	1,578,000	-	1,578,000	-
Other assets	1,119,209	465	1,118,744	-
Accrued income	441,055	441,055	-	-
	182,625,824	177,192,917	5,432,907	-
Alternative investments	74,222,091	-	-	-
	<u>\$ 256,847,915</u>	<u>\$ 177,192,917</u>	<u>\$ 5,432,907</u>	<u>\$ -</u>

The Foundation's policy is to recognize transfers in and transfers out of the valuation levels as of the beginning of the reporting period. There were no transfers between valuation levels during the years ended December 31, 2018 or 2017.

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

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 8 - FAIR VALUE - Continued

The following table summarizes investments measured at fair value based on NAV per share (or its equivalent) at December 31, 2018, with information related to the redemption rights of such investments:

Investment	Fair Value	Redemption Frequency	Redemption Notice Period	Lock-up Provision
Courage Special Situations Offshore Fund, Ltd.	\$ 2,178,086	Monthly	60 days	Rolling three years, expiring February 2020
Courage Credit Opportunity Offshore Fund III, L.P.	8,240,993	n/a	n/a	Life of the partnership (9 years), expiring May 2021
Courage Credit Opportunity Offshore Fund IV, L.P.	2,874,593	n/a	n/a	Life of the partnership (7 years, plus optional extension periods)
Undiscovered Value Fund, Ltd. Class A Series (03-18)	17,307,797	Quarterly	65 days	Initial year of investment, expired Initial year of investment, expiring July 2019
Class A Series (08-18)	19,209,985	Quarterly	65 days	Life of the partnership (15 years), expiring December 2025
RMS Forest Growth Fund III, LP	7,707,479	n/a	n/a	Life of the partnership (10 years), expiring October 2021
U.S. Farming Realty Trust II, LP	8,611,023	n/a	n/a	Rolling one year, expiring February 2020
Ceres Farms, LLC	8,853,904	Annually	5 months	
	<u>\$ 74,983,860</u>			

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 8 - FAIR VALUE - Continued

The following table summarizes investments measured at fair value based on NAV per share (or its equivalent) at December 31, 2017, with information related to the redemption rights of such investments:

Investment	Fair Value	Redemption Frequency	Redemption Notice Period	Lock-up Provision
Courage Special Situations Offshore Fund, Ltd.				Rolling three years, expiring February 2020
Class A Series	\$ 2,139,026	Monthly	60 days	
Class C Series	2,718,526	Quarterly	60 days	Rolling three months, expiring June 2018
Courage Credit Opportunity Offshore Fund III, L.P.	6,713,393	n/a	n/a	Life of the partnership (9 years), expiring May 2021
Private Advisors Hedged Equity Fund (QP), Ltd.	19,218,211	Quarterly	65 days	Initial year of investment, expired
Undiscovered Value Fund, Ltd.	17,005,716	Quarterly	65 days	Initial year of investment, expired
RMS Forest Growth Fund III, LP	9,213,294	n/a	n/a	Life of the partnership (15 years), expiring December 2025
U.S. Farming Realty Trust II, LP	8,685,133	n/a	n/a	Life of the partnership (10 years), expiring October 2021
Ceres Farms, LLC	8,528,792	Annually	5 months	Rolling one year, expiring February 2019
	<u>\$ 74,222,091</u>			

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

- *Courage Special Situations Offshore Fund, Ltd.*: Achieve significant capital gains while minimizing risk associated with the broad equity markets.
- *Courage Credit Opportunities Offshore Fund III, L.P.*: Achieve investment returns while emphasizing distressed investments in financially troubled companies, including those of companies that may, or have, become involved in reorganization or bankruptcy proceedings.
- *Courage Credit Opportunities Offshore Fund IV, L.P.*: Achieve investment returns while emphasizing distressed investments in financially troubled companies, including those of companies that may, or have, become involved in reorganization or bankruptcy proceedings.
- *Private Advisors Hedged Equity Fund (QP), Ltd.*: Seek long-term capital appreciation above historical equity returns, over a full market cycle, with volatility that is lower than that of the equity market and returns that demonstrate a low correlation to both the equity and fixed income markets.
- *Undiscovered Value Fund, Ltd.*: Seek long-term appreciation above historical equity returns over a full market cycle with volatility that is lower than that of the equity market.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 8 - FAIR VALUE - Continued

- *RMS Forest Growth Fund III, LP*: Invest in timberland properties and/or long-term timberland leaseholds or project ventures which invest in timberland properties or long-term timberland leaseholds.
- *U.S. Farming Realty Trust II, LP*: Achieve short-term distributable cash income and long-term capital appreciation through investments in a diversified portfolio of farmlands to be leased to farming operators or to use for direct farming operations.
- *Ceres Farms, LLC*: Generate an attractive total return through the acquisition and management of farmland in the Midwestern United States of America.

NOTE 9 - RETIREMENT PLANS

The Foundation makes contributions for its employees to a defined contribution retirement plan maintained by GuideStone Financial Resources, an entity affiliated with the Southern Baptist Convention. The Foundation makes non-matching contributions to employee accounts equal to 10% of the employee's salary. The Foundation matches employee contributions, up to 5% of the employee's salary, based on years of service. Employees are eligible for participation in the plan on the first day of employment and are fully vested on their fifth year of service. Contributions to the plan totaled \$165,378 and \$159,822 during the years ended December 31, 2018 and 2017, respectively.

The Foundation also sponsors a deferred compensation plan. Deferred compensation expense totaled \$50,000 during each of the years ended December 31, 2018 and 2017, and the related liability totaled \$726,049 and \$681,602 at December 31, 2018 and 2017, respectively.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Foundation is affiliated with the Alabama Baptist State Convention and receives administrative support through the Cooperative Program of the State Board of Missions. The State Board of Missions provided \$136,425 and \$126,156 in administrative support to the Foundation during the years ended December 31, 2018 and 2017, respectively. The Foundation also administers certain assets for the State Board of Missions, whose value totaled \$8,955,986 and \$11,155,667 at December 31, 2018 and 2017, respectively.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2018 and 2017

(Continued)

NOTE 11 - FUNCTIONAL EXPENSES

The financial statements contain certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and employee benefits, office and travel expenses and depreciation. Management determined based on the nature of the Foundation's operations and organizational structure, that the principal drivers of expenses are number of employees and square footage of office space. Therefore, the number of employees is used as the basis for allocating salaries and employee benefits and travel expenses, and the square footage of office space is used as the basis for allocating office expenses and depreciation.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Foundation leases office equipment under a noncancelable operating lease agreement expiring in April 2023. Rent expense incurred under the operating lease agreement totaled \$11,377 and \$10,411 during the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, future amounts due under the noncancelable operating lease agreement for the next five years are as follows:

2019	\$	5,640
2020		5,640
2021		5,640
2022		5,640
2023		1,880
	\$	<u>24,440</u>