THE BAPTIST FOUNDATION OF ALABAMA

Financial Statements

December 31, 2012 and 2011

TABLE OF CONTENTS

Page

INDEPENDENT AUDITORS' REPORT 3

FINANCIAL STATEMENTS

Statements of Financial Position 4

Statements of Activities 5

Statements of Cash Flows 6

Notes to Financial Statements 7

BARFIELD MURPHY SHANK & SMITH LLC
CERTIFIED PUBLIC ACCOUNTANTS

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, AAAPM
Derrel G. Curry, CPA
Ross Mendheim, CPA
Daniel Brock, CPA, CVA
Cynthia Hudson, CPA

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, 2012 and 2011, and the related statements of activities 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
August 27, 2013

THE BAPTIST FOUNDATION OF ALABAMA
Statements of Financial Position
December 31, 2012 and 2011

	2012	Restated 2011
Assets		
Cash and cash equivalents	$ 883,922	$ 898,147
Accounts receivable	32,276	41,851
Bequests receivable	13,155	202,844
Investments	49,626,693	44,911,645
Investments held in charitable remainder trusts and gift annuities	158,888	154,691
Investments held for others	169,799,730	156,287,534
Property and equipment, net	2,150,924	2,199,308
	$ 222,665,588	$ 204,696,020
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 351,701	$ 254,219
Liabilities associated with charitable remainder trusts and gift annuities	61,134	64,176
Investments held for others	169,799,730	156,287,534
	170,212,565	156,605,929
Net assets		
Unrestricted	22,832,465	20,430,724
Temporarily restricted	5,680,706	4,789,646
Permanently restricted	23,939,852	22,869,721
	52,453,023	48,090,091
	$ 222,665,588	$ 204,696,020

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA
Statements of Activities
Years ended December 31, 2012 and 2011

	2012	Restated 2011
Change in Unrestricted Net Assets		
Support and revenue		
Contributions	$ 1,357,790	$ -
Cooperative program	380,026	416,363
Investment and administrative fee income	812,074	820,877
Trust and other income	45,478	75,812
Interest and dividend income	391,127	384,048
Realized gain on investments	257,958	144,831
Unrealized gain (loss) on investments	1,278,656	(780,156)
Net assets released from restriction	1,075,582	1,152,980
	5,598,691	2,214,755
Functional expenses		
Program services		
Disbursements for beneficiaries and others	1,213,685	1,276,015
Trust administration	656,752	593,300
Eldercare	329,200	316,205
General and administrative	562,249	540,276
Development	435,064	506,708
	3,196,950	3,232,504
Change in unrestricted net assets	2,401,741	(1,017,749)
Change in Temporarily Restricted Net Assets		
Contributions	24,309	5,232
Interest and dividend income	361,484	456,609
Realized gain on investments	408,610	240,993
Unrealized gain (loss) on investments	1,172,239	(410,199)
Net assets released from restriction	(1,075,582)	(1,152,980)
Change in temporarily restricted net assets	891,060	(860,345)
Change in Permanently Restricted Net Assets		
Contributions	1,060,243	599,979
Change in value of assets and liabilities associated with charitable remainder trusts and gift annuities	9,888	(1,389)
Change in permanently restricted net assets	1,070,131	598,590
Change in net assets	4,362,932	(1,279,504)
Net assets - beginning of year	48,090,091	49,369,595
Net assets - end of year	$ 52,453,023	$ 48,090,091

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA
Statements of Cash Flows
Years ended December 31, 2012 and 2011

	2012	Restated 2011
Operating Activities		
Change in net assets	$ 4,362,932	$ (1,279,504)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	117,298	115,021
Gain on disposal of property and equipment	(8,917)	(750)
Investment income	(735,516)	(819,114)
Realized gain on investments	(666,568)	(385,824)
Unrealized (gain) loss on investments	(2,450,895)	1,190,355
Contributions restricted for long-term purposes	(1,060,243)	(599,979)
Changes in operating assets and liabilities		
Accounts receivable	9,575	2,371
Bequests receivable	189,689	(2,844)
Accounts payable and accrued expenses	97,482	48,686
Value of assets and liabilities associated with charitable remainder trusts and gift annuities	(7,239)	8,731
Net cash used in operating activities	(152,402)	(1,722,851)
Investing Activities		
Proceeds from sale of investments	1,981,507	1,967,220
Purchases of investments	(2,843,576)	(563,898)
Proceeds from disposal of property and equipment	9,616	10,750
Purchases of property and equipment	(69,613)	(38,490)
Net cash (used in) provided by investing activities	(922,066)	1,375,582
Financing Activities		
Proceeds from contributions restricted for investment in permanent endowment	1,060,243	399,979
Net cash provided by financing activities	1,060,243	399,979
Net (decrease) increase in cash and cash equivalents	(14,225)	52,710
Cash and cash equivalents - beginning of year	898,147	845,437
Cash and cash equivalents - end of year	$ 883,922	$ 898,147

See notes to financial statements.

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 27, 2013, 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, invested in property and equipment, or designated by the Board of Directors or management to function as endowments.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Financial Statement Presentation - Continued

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.

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, 2012 and 2011 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 reverted 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, 2012 or 2011.

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.

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, 2012 and 2011 consisted primarily of funds invested in fixed-income and equity securities. Expenses relating to investment income, including custodial fees and investment advisory fees, totaled $107,752 and $104,762 during the years ended December 31, 2012 and 2011, 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 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.

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, 2012 and 2011), 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 $158,888 and $154,691 at December 31, 2012 and 2011, 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 6.00% to 8.00% and applicable mortality tables and totaled $61,134 and $64,176 at December 31, 2012 and 2011, respectively.

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, 2012 and 2011, approximately 38% of total investments were invested in two fixed income securities.

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, 2012 or 2011 based on an assessment of many factors including experience and interpretations of applicable tax laws.

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.

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, 2011, as previously reported.

NOTE 2 - RESTATEMENT

During the year ended December 31, 2012, management discovered that a portion of the net assets of the Foundation had been misclassified related to complex endowment agreements in the prior year and that several accounts held for others had historically been included in the Foundation's net assets. Accordingly, the Foundation restated its 2011 net assets balances. The net effect of the restatement was to decrease investments and increase investments held for others by $65,625, increase unrestricted net assets by $2,315,096, decrease temporarily restricted net assets by $1,996,331 and decrease permanently restricted net assets by $384,390. The restatement had no effect on change in net assets for the year ended December 31, 2011, as previously reported.

NOTE 3 - INVESTMENTS

Investments consisted of the following at December 31, 2012:

	Fair Value	Cost	Unrealized Appreciation
Cash and cash equivalents	$ 22,229,499	$ 22,229,499	$ -
Fixed income securities	80,738,836	78,838,703	1,900,133
Limited partnerships	48,262,104	44,309,482	3,952,622
Mutual funds	15,427,622	12,574,613	2,853,009
Marketable equity securities	44,187,240	39,389,006	4,798,234
Mortgages and notes receivable	1,772,084	1,772,084	-
Commercial real estate	655,000	522,500	132,500
Residential real estate	2,513,765	2,495,339	18,426
Timber and timberland	2,440,000	2,348,001	91,999
Other assets	553,850	190,750	363,100
Accrued income	805,311	805,311	-
	$ 219,585,311	$ 205,475,288	$ 14,110,023

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

Investments	$ 49,626,693
Investments held in charitable remainder trusts and gift annuities	158,888
Investments held for others	169,799,730
	$ 219,585,311

THE BAPTIST FOUNDATION OF ALABAMA
Notes to Financial Statements
December 31, 2012 and 2011
(Continued)

NOTE 3 - INVESTMENTS - Continued

Investments consisted of the following at December 31, 2011:

	Fair Value	Cost	Unrealized (Depreciation) Appreciation
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	-
	$ 201,353,870	$ 197,680,635	$ 3,673,235

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

Investments	$ 44,911,645
Investments held in charitable remainder trusts and gift annuities	154,691
Investments held for others	156,287,534
	$ 201,353,870

Transactions affecting assets held for others are as follows:

	2012	2011
Balance - beginning of year	$ 156,287,534	$ 159,450,559
Deposits and additions	18,820,341	9,364,635
Interest, dividends and amortization	3,448,616	3,456,833
Realized and unrealized gains (losses)	9,617,309	(2,402,117)
Disbursements for beneficiaries and other withdrawals	(18,374,070)	(13,582,376)
Balance - end of year	$ 169,799,730	$ 156,287,534

NOTE 4 - 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. 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	2012	2011
Permanently restricted	A	$ 23,939,852	$ 22,869,721
Temporarily restricted	B	4,800,777	3,906,958
Unrestricted (quasi-endowments)	C	10,788,684	9,807,099
		$ 39,529,313	$ 36,583,778

Type A restrictions represent the portion of perpetual endowment funds that are 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 funds designated by the Board of Directors or management to function as endowments (quasi-endowments). The principal portion of unrestricted endowments may be expended at any time by the decision of the Board of Directors or management.

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 $754,936 and $1,079,224 at December 31, 2012 and 2011, 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.

NOTE 4 - ENDOWMENT - Continued

Changes in endowment net assets consisted of the following during the years ended December 31, 2012 and 2011:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets - December 31, 2010	$ 10,265,649	$ 4,772,714	$ 22,271,131	$ 37,309,494
Contributions	17,391	-	599,979	617,370
Interest and dividend income	196,684	398,211	-	594,895
Realized and unrealized gains, net	(136,350)	(165,194)	-	(301,544)
Appropriation of endowment assets for expenditure	(536,275)	(1,098,773)	-	(1,635,048)
Change associated with charitable remainder trusts and gift annuities	-	-	(1,389)	(1,389)
Endowment net assets - December 31, 2011	9,807,099	3,906,958	22,869,721	36,583,778
Contributions	567,706	-	1,060,243	1,627,949
Interest and dividend income	172,296	253,723	-	426,019
Realized and unrealized losses, net	714,954	1,550,429	-	2,265,383
Appropriation of endowment assets for expenditure	(473,371)	(910,333)	-	(1,383,704)
Change associated with charitable remainder trusts and gift annuities	-	-	9,888	9,888
Endowment net assets - December 31, 2012	$ 10,788,684	$ 4,800,777	$ 23,939,852	$ 39,529,313

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.

NOTE 4 - ENDOWMENT - Continued

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 2.00% 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.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2012	2011
Land	$ 696,687	$ 696,687
Buildings and improvements	1,603,295	1,603,295
Furniture and fixtures	425,245	390,829
Automobiles	169,615	185,487
	2,894,842	2,876,298
Less accumulated depreciation	743,918	676,990
	$ 2,150,924	$ 2,199,308

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	2012	2011
Temporarily restricted		
Eldercare	$ 149,764	$ 153,099
Church loans	729,142	729,123
Scholarships	1,782,614	1,468,047
Other endowments	3,019,186	2,439,377
	$ 5,680,706	$ 4,789,646
Permanently restricted		
Endowments	$ 23,939,852	$ 22,869,721

NOTE 7 - 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, 2012 or 2011.

- *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 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 limited partnerships 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 the Foundation’s investments in limited 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 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.

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, 2012 and 2011:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Cash and cash equivalents	$ 22,229,499	$ 22,229,499	$ -	$ -
Fixed income securities	80,738,836	80,738,836	-	-
Limited partnerships	48,262,104	-	20,251,562	28,010,542
Mutual funds	15,427,622	15,427,622	-	-
Marketable equity securities	44,187,240	44,012,839	174,401	-
Mortgages and notes receivable	1,772,084	-	1,772,084	-
Commercial real estate	655,000	-	655,000	-
Residential real estate	2,513,765	-	2,513,765	-
Timber and timberland	2,440,000	-	2,440,000	-
Other assets	553,850	472	553,378	-
Accrued income	805,311	805,311	-	-
	$ 219,585,311	$ 163,214,579	$ 28,360,190	$ 28,010,542
December 31, 2011				
Cash and cash equivalents	$ 17,110,513	$ 17,110,513	$ -	$ -
Fixed income securities	75,007,382	75,007,382	-	-
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	-	-
	$ 201,353,870	$ 159,502,214	$ 25,459,145	$ 16,392,511

NOTE 7 - FAIR VALUE - Continued

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

	2012	2011
Balance - beginning of year	$ 16,392,511	$ 8,336,631
Purchases	15,684,433	7,868,897
Withdrawals	(6,219,530)	-
Unrealized gains (losses)		
Included in change in net assets	645,938	56,095
Included in change in investments held for others	1,507,190	130,888
Balance - end of year	$ 28,010,542	$ 16,392,511

The entire amount of unrealized gains and losses detailed above relates to assets held by the Foundation at December 31, 2012 and 2011 and is included in unrealized gain (loss) on investments in the accompanying statements of activities.

The Foundation invests in limited partnerships and limited liability companies, 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.

Management determines the classification of alternative investments within the fair value hierarchy based on the Foundation's ability to redeem the investments at net realizable value at the measurement date. If the Foundation has the ability to redeem its investment at net asset value per share (or its equivalent) at the measurement date, the investment asset is included within level two of the fair value hierarchy. Otherwise, the investment asset is included within level three of the fair value hierarchy.

NOTE 7 - FAIR VALUE - Continued

The following table summarizes information related to the redemption rights of alternative investments held by the Foundation at December 31, 2012:

Investment	Fair Value	Redemption Frequency	Redemption Notice Period	Lock-up Provision
Courage Special Situations Offshore Fund, Ltd.	$ 11,561,775	Quarterly	60 days	Rolling three years
Private Advisors Hedged Equity Fund (QP), Ltd.	11,451,824	Quarterly	65 days	n/a
RMS Forest Growth Fund III, LP	6,947,955	n/a	n/a	Life of the partnership (15 years)
US Farming Realty Trust II, LP	5,401,464	n/a	n/a	Life of the partnership (10 years)
SSI Convertible Income Fund, LP	8,799,738	Quarterly	30 days	n/a
Ceres Farms, LLC	4,099,348	Annually	5 months	Rolling one year
	$ 48,262,104			

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, focusing on event driven, special situations and value oriented investment opportunities.
- *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.
- *RMS Forest Growth Fund II, LP:* Invest in timberland properties and/or long-term timberland leaseholds or project ventures which invest in timberland properties or long-term timberland leaseholds.
- *US Farming Realty Trust II, LP:* Achieve short-term distributable cash income and long-term capital appreciation through investments in a diversified portfolio of farmlands in the United States of America to be leased to farming operators.
- *SSI Convertible Income Fund, LP:* Invest in, hold, sell, trade and otherwise deal in securities consisting principally, but not solely, of stocks, bonds, notes, bills, exchange-traded funds, participating and convertible debt instruments, and other securities and instruments that are traded publicly and privately in the “144A” market. The Fund also seeks to profit from declines in the value of securities and hedge its positions by short selling and through other strategies.
- *Ceres Farms, LLC:* Open-ended investment fund whose objective is to generate an attractive total return through the acquisition and management of farmland in the Midwestern United States of America.

NOTE 7 - FAIR VALUE - Continued

The net asset value of alternative investments is dependent upon the value of the investments held by each limited partnership, which are valued using both observable and unobservable inputs. The following table sets forth the valuation approaches, unobservable inputs, and range of inputs as reported in the audited financial statements of the limited partnerships at December 31, 2012:

Investment	Fair Value	Valuation Approaches	Unobservable Input	Range of Inputs (Average)
Courage Special Situations Offshore Fund, Ltd.	$ 11,561,775	Income, discounted cash flows	Discount rate	11.50%
		Market, comparable companies	LTM EBITDA	6.4x
		Market, comparable transactions	Annualized revenue change rate	-0.07%
			Terminal multiple	6.5x
RMS Forest Growth Fund III, LP	6,947,955	Income, discounted cash flows	Discount rate	7.50%
			Percentage change in future timber pricing	-11.07% to 18.00% (3.55%)
			Cost of management (annual cost per acre)	$9.14 to $148.88 ($32.27)
US Farming Realty Trust II, LP	5,401,464	Real estate appraisals	Not reasonably available	n/a
		Income		
		Market, comparable companies		
		Market, comparable transactions		
Ceres Farms, LLC	4,099,348	Real estate appraisals	n/a	n/a
	$ 28,010,542			

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 $380,026 and $416,363 in administrative support to the Foundation during the years ended December 31, 2012 and 2011, respectively. The Foundation also administers certain assets for the State Board of Missions. As of December 31, 2012 and 2011, the Foundation held and managed funds for the State Board of Missions valued at $7,242,308 and $6,700,006, 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 $172,420 and $186,051 during the years ended December 31, 2012 and 2011, 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 $122,169 and $119,188 during the years ended December 31, 2012 and 2011, respectively.

The Foundation also sponsors a deferred compensation plan. Deferred compensation expense totaled $50,000 during the years ended December 31, 2012 and 2011. The deferred compensation liability totaled $297,171 and $222,356 at December 31, 2012 and 2011, 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 during each of the years ended December 31, 2012 and 2011. At December 31, 2012, future amounts due under the noncancelable operating lease agreement totaled $14,382 for the year ending December 31, 2013.

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, 2012 are as follows:

	Trust Administration	Eldercare	Total Program Services	General and Administrative	Development	Total Expenses
Depreciation	$ 43,400	$ 23,460	$ 66,860	$ 21,114	$ 29,324	$ 117,298
Disbursements for beneficiaries and others	1,213,685	-	1,213,685	-	-	1,213,685
Office expense	83,745	45,479	129,224	80,607	46,229	256,060
Professional	65,908	75	65,983	35,336	17,601	118,920
Promotion and public relations	-	3,292	3,292	3,888	32,493	39,673
Salaries and benefits	458,640	233,126	691,766	416,715	275,956	1,384,437
Travel	5,059	23,768	28,827	4,589	33,461	66,877
	$ 1,870,437	$329,200	$ 2,199,637	$ 562,249	$ 435,064	$ 3,196,950

THE BAPTIST FOUNDATION OF ALABAMA
Notes to Financial Statements
December 31, 2012 and 2011
(Continued)

NOTE 11 - FUNCTIONAL EXPENSES - Continued

The expenses of the Foundation, by function, for the year ended December 31, 2011 are as follows:

	Trust Administration	Eldercare	Total Program Services	General and Administrative	Development	Total Expenses
Depreciation	$ 39,107	$ 23,004	$ 62,111	$ 23,004	$ 29,906	$ 115,021
Disbursements for beneficiaries and others	1,276,015	-	1,276,015	-	-	1,276,015
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
	$ 1,869,315	$316,205	$ 2,185,520	$ 540,276	$ 506,708	$ 3,232,504