

**THE BAPTIST FOUNDATION OF ALABAMA**

Financial Statements

December 31, 2014 and 2013

## TABLE OF CONTENTS

	Page
<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>3</b>
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position.....	4
Statements of Activities .....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7

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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, 2014 and 2013, 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, 2014 and 2013, 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  
July 22, 2015

-3-

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**THE BAPTIST FOUNDATION OF ALABAMA**

Statements of Financial Position

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 238,594	\$ 610,369
Accounts receivable	46,808	33,464
Bequests receivable	334	250
Investments	53,022,633	53,169,255
Investments held in charitable remainder trusts and gift annuities	159,120	171,356
Investments held for others	180,977,524	180,056,539
Property and equipment, net	<u>2,075,054</u>	<u>2,120,218</u>
	<u>\$ 236,520,067</u>	<u>\$ 236,161,451</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 455,071	\$ 403,279
Liabilities associated with charitable remainder trusts and gift annuities	53,042	58,572
Investments held for others	<u>180,977,524</u>	<u>180,056,539</u>
	181,485,637	180,518,390
Net assets		
Unrestricted	24,550,667	24,626,172
Temporarily restricted	6,030,778	6,600,782
Permanently restricted	<u>24,452,985</u>	<u>24,416,107</u>
	<u>55,034,430</u>	<u>55,643,061</u>
	<u>\$ 236,520,067</u>	<u>\$ 236,161,451</u>

See notes to financial statements.

**THE BAPTIST FOUNDATION OF ALABAMA**  
 Statements of Activities  
 Years ended December 31, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Change in Unrestricted Net Assets</b>		
Support and revenue		
Contributions	\$ 733,978	\$ 601,170
Cooperative program	388,460	373,934
Investment and administrative fee income	943,327	877,675
Trust and other income	47,756	32,752
Interest and dividend income	390,999	394,006
Realized gain on investments	87,044	797,846
Unrealized (loss) gain on investments	(105,878)	915,162
Net assets released from restriction	1,051,522	963,369
	3,537,208	4,955,914
Functional expenses		
Program services		
Disbursements for beneficiaries and others	1,181,492	1,190,818
Trust administration	738,307	676,666
Eldercare	311,074	328,300
General and administrative	627,260	599,695
Development	754,580	491,835
	3,612,713	3,287,314
Change in unrestricted net assets	(75,505)	1,668,600
<b>Change in Temporarily Restricted Net Assets</b>		
Contributions	51,837	11,245
Interest and dividend income	312,925	369,033
Realized gain on investments	77,686	1,040,734
Unrealized gain on investments	39,070	462,540
Net assets released from restriction	(1,051,522)	(963,369)
	(570,004)	920,183
Change in temporarily restricted net assets	(570,004)	920,183
<b>Change in Permanently Restricted Net Assets</b>		
Contributions	45,660	587,040
Change in value of assets and liabilities associated with charitable remainder trusts and gift annuities	(8,782)	14,215
	36,878	601,255
Change in permanently restricted net assets	36,878	601,255
Change in net assets	(608,631)	3,190,038
Net assets - beginning of year	55,643,061	52,453,023
Net assets - end of year	\$ 55,034,430	\$ 55,643,061

See notes to financial statements.

**THE BAPTIST FOUNDATION OF ALABAMA**

Statements of Cash Flows  
Years ended December 31, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Change in net assets	\$ (608,631)	\$ 3,190,038
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	92,937	104,162
Gain on disposal of property and equipment	(12,500)	(5,517)
Investment income	(703,924)	(762,850)
Realized gain on investments	(164,730)	(1,838,580)
Unrealized loss (gain) on investments	66,808	(1,377,702)
Contributions restricted for long-term purposes	(45,660)	(587,040)
Changes in operating assets and liabilities		
Accounts receivable	(13,344)	(1,188)
Bequests receivable	(84)	12,905
Accounts payable and accrued expenses	51,792	51,578
Value of assets and liabilities associated with charitable remainder trusts and gift annuities	6,706	(15,030)
Net cash used in operating activities	(1,330,630)	(1,229,224)
<b>Investing Activities</b>		
Proceeds from sale of investments	2,710,502	3,403,130
Purchases of investments	(1,762,034)	(2,966,560)
Proceeds from disposal of property and equipment	12,500	7,000
Purchases of property and equipment	(47,773)	(74,939)
Net cash provided by investing activities	913,195	368,631
<b>Financing Activities</b>		
Proceeds from contributions restricted for investment in permanent endowment	45,660	587,040
Net cash provided by financing activities	45,660	587,040
Net decrease in cash and cash equivalents	(371,775)	(273,553)
Cash and cash equivalents - beginning of year	610,369	883,922
Cash and cash equivalents - end of year	\$ 238,594	\$ 610,369

See notes to financial statements.

## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2014 and 2013

### 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 July 22, 2015, 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.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**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 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, 2014 or 2013.

**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.



## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

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

#### Investments

Investments in debt and equity securities with readily determinable fair values are recorded at fair market value. Investments without readily determinable fair values are recorded at cost, or if impaired, at estimated realizable value. The Foundation's investments as of December 31, 2014 and 2013 consisted primarily of funds invested in fixed-income and equity securities. Expenses relating to investment income, including custodial fees and investment advisory fees, totaled \$111,692 and \$105,436 during the years ended December 31, 2014 and 2013, 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 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.

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 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 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 BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

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

#### **Investments - Continued**

The Investment Committee is charged with the fiduciary responsibility of preserving and augmenting the value of the endowments, included in investments, thereby sustaining the ability to generate financial support to further the mission of the Foundation. The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that cover the spending policy payout percentage (3.15% or 4.25% at December 31, 2014 and 2013), 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 \$159,120 and \$171,356 at December 31, 2014 and 2013, 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 \$53,042 and \$58,572 at December 31, 2014 and 2013, respectively.

## **THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

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

#### **Investments Held for Others**

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

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

#### **Concentration of Credit Risk**

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

The Foundation investment allocations are predetermined by the Investment Committee and communicated to its investment brokerage firm. At December 31, 2014 and 2013, approximately 14% and 16%, respectively, of total investments were invested in one mutual fund.

#### **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, 2014 or 2013 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, 2014 and 2013

(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.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 2 - INVESTMENTS**

Investments consisted of the following at December 31, 2014:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation</u>
Cash and cash equivalents	\$ 20,955,225	\$ 20,955,225	\$ -
Fixed income securities	68,181,517	67,480,623	700,894
Limited partnerships	67,916,304	58,993,890	8,922,414
Mutual funds	61,474,946	52,234,614	9,240,332
Marketable equity securities	8,657,568	7,979,222	678,346
Mortgages and notes receivable	1,798,660	1,798,660	-
Commercial real estate	655,000	655,000	-
Residential real estate	1,529,927	1,529,917	10
Timber and timberland	2,215,000	2,123,001	91,999
Other assets	316,860	660	316,200
Accrued income	458,270	458,270	-
	<u>\$ 234,159,277</u>	<u>\$ 214,209,082</u>	<u>\$ 19,950,195</u>

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

Investments	\$ 53,022,633
Investments held in charitable remainder trusts and gift annuities	159,120
Investments held for others	180,977,524
	<u>\$ 234,159,277</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 2 - INVESTMENTS - Continued**

Investments consisted of the following at December 31, 2013:

	<b>Fair Value</b>	<b>Cost</b>	<b>Unrealized Appreciation</b>
Cash and cash equivalents	\$ 31,881,029	\$ 31,881,029	\$ -
Fixed income securities	74,123,130	73,851,566	271,564
Limited partnerships	51,102,545	43,302,808	7,799,737
Mutual funds	60,565,205	49,856,876	10,708,329
Marketable equity securities	8,059,744	7,994,519	65,225
Mortgages and notes receivable	1,778,054	1,778,054	-
Commercial real estate	655,000	522,500	132,500
Residential real estate	1,944,655	1,927,629	17,026
Timber and timberland	2,215,000	2,123,001	91,999
Other assets	469,387	100,095	369,292
Accrued income	603,401	603,401	-
	<u>\$ 233,397,150</u>	<u>\$ 213,941,478</u>	<u>\$ 19,455,672</u>

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

Investments	\$ 53,169,255
Investments held in charitable remainder trusts and gift annuities	171,356
Investments held for others	180,056,539
	<u>\$ 233,397,150</u>

Transactions affecting assets held for others are as follows:

	<b>2014</b>	<b>2013</b>
Balance - beginning of year	\$ 180,056,539	\$ 169,799,730
Deposits and additions	9,529,187	9,882,719
Interest, dividends and amortization	3,148,463	3,474,488
Realized and unrealized gains	233,829	8,978,154
Disbursements for beneficiaries and other withdrawals	(11,990,494)	(12,078,552)
Balance - end of year	<u>\$ 180,977,524</u>	<u>\$ 180,056,539</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 3 - 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:

	<b>Type</b>	<b>2014</b>	<b>2013</b>
Permanently restricted	A	\$ 24,452,985	\$ 24,416,107
Temporarily restricted	B	5,074,704	5,671,249
Unrestricted (quasi-endowments)	C	13,087,667	12,987,575
		<u>\$ 42,615,356</u>	<u>\$ 43,074,931</u>

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 \$522,499 and \$385,862 at December 31, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Foundation's Board of Directors.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 3 - ENDOWMENT - Continued**

Changes in endowment net assets consisted of the following during the years ended December 31, 2014 and 2013:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets -				
December 31, 2012	\$ 10,913,791	\$ 4,800,670	\$ 23,814,852	\$ 39,529,313
Contributions	1,388,759	45,388	587,040	2,021,187
Interest and dividend income	185,788	452,028	-	637,816
Realized and unrealized gains, net	966,757	1,497,883	-	2,464,640
Appropriation of endowment assets for expenditure	(467,520)	(1,124,720)	-	(1,592,240)
Change associated with charitable remainder trusts and gift annuities	-	-	14,215	14,215
Endowment net assets -				
December 31, 2013	12,987,575	5,671,249	24,416,107	43,074,931
Contributions	130,000	43,739	45,660	219,399
Interest and dividend income	187,800	415,581	-	603,381
Realized and unrealized gains, net	350,808	54,504	-	405,312
Appropriation of endowment assets for expenditure	(568,516)	(1,110,369)	-	(1,678,885)
Change associated with charitable remainder trusts and gift annuities	-	-	(8,782)	(8,782)
Endowment net assets -				
December 31, 2014	<u>\$ 13,087,667</u>	<u>\$ 5,074,704</u>	<u>\$ 24,452,985</u>	<u>\$ 42,615,356</u>

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 BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 3 - 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 preceding the calendar year in which the distribution is planned. The percentage is decreased to 3.15% 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 4 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 696,687	\$ 696,687
Buildings and improvements	1,658,421	1,658,421
Furniture and fixtures	430,916	426,708
Automobiles	180,551	161,848
	<u>2,966,575</u>	<u>2,943,664</u>
Less accumulated depreciation	891,521	823,446
	<u>\$ 2,075,054</u>	<u>\$ 2,120,218</u>

**NOTE 5 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

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

	<u>2014</u>	<u>2013</u>
Temporarily restricted		
Eldercare	\$ 197,825	\$ 184,938
Church loans	758,249	744,824
Scholarships	1,968,030	2,231,081
Other endowments	3,106,674	3,439,939
	<u>\$ 6,030,778</u>	<u>\$ 6,600,782</u>
Permanently restricted		
Endowments	\$ 24,452,985	\$ 24,416,107

## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

### NOTE 6 - FAIR VALUE

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the methodologies used during the years ended December 31, 2014 or 2013.

- *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.
- *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.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 6 - FAIR VALUE - Continued**

The following table sets forth, by level within the fair value hierarchy, the Foundation's investment assets at fair value, as of December 31, 2014 and 2013:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
December 31, 2014				
Cash and cash equivalents	\$ 20,955,225	\$ 20,955,225	\$ -	\$ -
Fixed income securities	68,181,517	68,181,517	-	-
Limited partnerships	67,916,304	-	28,467,745	39,448,559
Mutual funds	61,474,946	61,474,946	-	-
Marketable equity securities	8,657,568	8,657,568	-	-
Mortgages and notes receivable	1,798,660	-	1,798,660	-
Commercial real estate	655,000	-	655,000	-
Residential real estate	1,529,927	-	1,529,927	-
Timber and timberland	2,215,000	-	2,215,000	-
Other assets	316,860	481	316,379	-
Accrued income	458,270	458,270	-	-
	<u>\$ 234,159,277</u>	<u>\$ 159,728,007</u>	<u>\$ 34,982,711</u>	<u>\$ 39,448,559</u>
December 31, 2013				
Cash and cash equivalents	\$ 31,881,029	\$ 31,881,029	\$ -	\$ -
Fixed income securities	74,123,130	74,123,130	-	-
Limited partnerships	51,102,545	-	22,123,965	28,978,580
Mutual funds	60,565,205	60,565,205	-	-
Marketable equity securities	8,059,744	7,871,993	187,751	-
Mortgages and notes receivable	1,778,054	-	1,778,054	-
Commercial real estate	655,000	-	655,000	-
Residential real estate	1,944,655	-	1,944,655	-
Timber and timberland	2,215,000	-	2,215,000	-
Other assets	469,387	473	468,914	-
Accrued income	603,401	603,401	-	-
	<u>\$ 233,397,150</u>	<u>\$ 175,045,231</u>	<u>\$ 29,373,339</u>	<u>\$ 28,978,580</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 6 - 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:

	<u>2014</u>	<u>2013</u>
Balance - beginning of year	\$ 28,978,580	\$ 28,010,542
Purchases	18,124,545	3,751,397
Withdrawals	(8,000,000)	(4,757,897)
Unrealized gains (losses)		
Included in change in net assets	58,724	572,616
Included in change in investments held for others	286,710	1,401,922
Balance - end of year	<u>\$ 39,448,559</u>	<u>\$ 28,978,580</u>

The entire amount of unrealized gains and losses detailed above relates to assets either held by the Foundation or held for others at December 31, 2014 and 2013.

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 if 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.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 6 - FAIR VALUE - Continued**

The following table summarizes information related to the redemption rights of alternative investments held by the Foundation at December 31, 2014:

<b>Investment</b>	<b>Fair Value</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>	<b>Lock-up Provision</b>
Courage Special Situations				
Offshore Fund, Ltd.				
Class A Series	\$ 1,722,958	Quarterly	60 days	Rolling three years
Class C Series	2,254,187	Quarterly	60 days	Rolling three months
Courage Credit Opportunity				
Offshore Fund II, L.P.	1,663,028	Quarterly	60 days	Rolling three years
Private Advisors Hedged Equity				
Fund (QP), Ltd.	17,226,169	Quarterly	65 days	n/a
Undiscovered Value Fund, Ltd.	9,390,887	Quarterly	65 days	Initial year of investment
RMS Forest Growth Fund III, LP	9,646,771	n/a	n/a	Life of the partnership (15 years)
US Farming Realty Trust II, LP	7,075,885	n/a	n/a	Life of the partnership (10 years)
SSI Convertible Income Fund, LP	11,241,576	Quarterly	30 days	n/a
Ceres Farms, LLC	7,694,843	Annually	5 months	Rolling one year
	<u>\$ 67,916,304</u>			

## THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

### NOTE 6 - FAIR VALUE - Continued

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.
- *Courage Credit Opportunities Offshore Fund II, 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 capital appreciation above historical equity returns over a full market cycle with volatility that is lower than that of the equity market.
- *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.

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 6 - 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, 2014:

<b>Investment</b>	<b>Fair Value</b>	<b>Valuation Approaches</b>	<b>Unobservable Input</b>	<b>Range of Inputs (Average)</b>		
Courage Special Situations Offshore Fund, Ltd.	\$ 3,977,145	Income, discounted cash flows	n/a	n/a		
		Market, comparable companies	n/a	n/a		
		Market, comparable transactions	n/a	n/a		
Courage Credit Opportunity Offshore Fund II, L.P.	1,663,028	Income, discounted cash flows	Discount rate	15.00%		
			Historical multiples	8.0x		
			Revenue growth	0.00%		
			Gross margin percentage	30.00% to 38.00% (34.00%)		
RMS Forest Growth Fund III, LP	9,646,771	Income, discounted cash flows	Discount rate	5.50% to 5.75% (5.63%)		
			Percentage change in future timber pricing	-8.40% to 10.60% (2.84%)		
			Cost of management (annual cost per acre)	\$8.30 to \$53.55 (\$20.23)		
			Price per acre	\$2,570 to \$11,559 (\$7,065)		
US Farming Realty Trust II, LP	7,075,885	Market, comparable transactions	Comparability adjustments	-20.00% to 75.00% (27.50%)		
			Income, discounted cash flows	Annualized net operating income per acre	\$83 to \$334 (\$209)	
			Discount rate	0.90% to 5.07% (2.99%)		
			Undiscovered Value Fund, Ltd.	9,390,887	Market, comparable transactions	n/a
			Ceres Farms, LLC	7,694,843	Real estate appraisals	n/a
	<u>\$ 39,448,559</u>					

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 6 - FAIR VALUE - Continued**

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, 2013:

Investment	Fair Value	Valuation Approaches	Unobservable Input	Range of Inputs (Average)		
Courage Special Situations Offshore Fund, Ltd.	\$ 12,801,779	Income, discounted cash flows Market, comparable companies Market, comparable transactions	Discount rate	11.50%		
			LTM EBITDA	10.2x		
			Annualized revenue change rate	1.40%		
			Terminal multiple	7.9x		
RMS Forest Growth Fund III, LP	7,313,258	Income, discounted cash flows	Discount rate	5.75% to 7.00% (6.17%)		
			Percentage change in future timber pricing	-7.90% to 17.50% (3.55%)		
			Cost of management (annual cost per acre)	\$3.47 to \$77.20 (\$13.67)		
			US Farming Realty Trust II, LP	3,671,775	Market, comparable transactions	Price per acre
Ceres Farms, LLC	5,191,768	Real estate appraisals	Comparability adjustments	-13.00% to 89.00% (30.00%)		
			Income, discounted cash flows	Annualized net operating income per acre		\$110 to \$253 (\$182)
			Discount rate	1.37% to 4.06% (2.72%)		
	<u>\$ 28,978,580</u>		n/a	n/a		

**NOTE 7 - RELATED PARTY TRANSACTIONS**

The Foundation is affiliated with the Alabama Baptist State Convention, and receives significant administrative support through the Cooperative Program of the State Board of Missions. The State Board of Missions provided \$388,460 and \$373,934 in administrative support to the Foundation during the years ended December 31, 2014 and 2013, respectively. The Foundation also administers certain assets for the State Board of Missions. As of December 31, 2014 and 2013, the Foundation held and managed funds for the State Board of Missions valued at \$9,786,605 and \$7,384,454, 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 \$166,029 and \$169,064 during the years ended December 31, 2014 and 2013, respectively.



**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 8 - RETIREMENT PLAN**

The Foundation makes contributions for its employees to a defined contribution retirement plan maintained by GuideStone Financial Resources, an entity affiliated with the Southern Baptist Convention. The Foundation makes non-matching contributions to employee accounts equal to 10% of the employee's salary. The Foundation matches employee contributions, up to 5% of the employee's salary, based on years of service. Employees are eligible for participation in the plan on the first day of employment and are fully vested on their fifth year of service. Contributions to the plan totaled \$160,555 and \$140,756 during the years ended December 31, 2014 and 2013, respectively.

The Foundation also sponsors a deferred compensation plan. Deferred compensation expense totaled \$50,000 during the years ended December 31, 2014 and 2013. The deferred compensation liability totaled \$436,600 and \$378,897 at December 31, 2014 and 2013, respectively.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

The Foundation leases office equipment under a noncancelable operating lease agreement expiring in September 2018. Rent expense incurred under the operating lease agreement totaled \$6,360 and \$15,972 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, future amounts due under the noncancelable operating lease agreement for the next four years are as follows:

2015	\$	6,360
2016		6,360
2017		6,360
2018		4,770
	\$	<u>23,850</u>

**THE BAPTIST FOUNDATION OF ALABAMA**

Notes to Financial Statements

December 31, 2014 and 2013

(Continued)

**NOTE 10 - FUNCTIONAL EXPENSES**

The cost of providing various programs and other activities has been presented on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses of the Foundation, by function, for the year ended December 31, 2014 consisted of the following:

	<b>Trust</b>		<b>Total</b>		<b>Total</b>	
	<b>Administration</b>	<b>Eldercare</b>	<b>Program</b>	<b>General and</b>	<b>Development</b>	<b>Expenses</b>
			<b>Services</b>	<b>Administrative</b>		
Depreciation	\$ 35,316	\$ 17,658	\$ 52,974	\$ 16,729	\$ 23,234	\$ 92,937
Disbursements for						
beneficiaries and others	1,181,492	-	1,181,492	-	-	1,181,492
Office expense	91,142	35,344	126,486	96,004	56,812	279,302
Professional	56,983	120	57,103	36,737	32,702	126,542
Promotion and public						
relations	-	2,254	2,254	1,509	45,773	49,536
Salaries and benefits	549,885	245,462	795,347	467,555	556,045	1,818,947
Travel	4,981	10,236	15,217	8,726	40,014	63,957
	<u>\$ 1,919,799</u>	<u>\$ 311,074</u>	<u>\$ 2,230,873</u>	<u>\$ 627,260</u>	<u>\$ 754,580</u>	<u>\$ 3,612,713</u>

The expenses of the Foundation, by function, for the year ended December 31, 2013 consisted of the following:

	<b>Trust</b>		<b>Total</b>		<b>Total</b>	
	<b>Administration</b>	<b>Eldercare</b>	<b>Program</b>	<b>General and</b>	<b>Development</b>	<b>Expenses</b>
			<b>Services</b>	<b>Administrative</b>		
Depreciation	\$ 38,540	\$ 20,832	\$ 59,372	\$ 18,749	\$ 26,041	\$ 104,162
Disbursements for						
beneficiaries and others	1,190,818	-	1,190,818	-	-	1,190,818
Office expense	80,737	43,251	123,988	85,173	44,593	253,754
Professional	56,338	75	56,413	39,850	10,678	106,941
Promotion and public						
relations	-	2,839	2,839	7,655	30,044	40,538
Salaries and benefits	495,806	247,369	743,175	445,259	351,025	1,539,459
Travel	5,245	13,934	19,179	3,009	29,454	51,642
	<u>\$ 1,867,484</u>	<u>\$ 328,300</u>	<u>\$ 2,195,784</u>	<u>\$ 599,695</u>	<u>\$ 491,835</u>	<u>\$ 3,287,314</u>