

THE BAPTIST FOUNDATION OF ALABAMA

Financial Statements

December 31, 2017

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
Statement of Financial Position	5
Statement of Activities.....	6
Statement of Functional Expenses.....	7
Statement of Cash Flows	8
Notes to Financial Statements	9

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 statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017, and the changes in its net assets, its functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Adoption of Accounting Standards

As discussed in Note 1 to the financial statements, in 2017, the Foundation adopted the new accounting guidance in Accounting Standards Updates (ASU) 2016-14 and 2015-07. Our report is not modified with respect to this matter.

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
July 31, 2018

THE BAPTIST FOUNDATION OF ALABAMA
Statement of Financial Position
December 31, 2017

Assets

Cash and cash equivalents	\$ 1,365,796
Accounts receivable	24,676
Investments	57,216,631
Investments held for others	199,631,284
Property and equipment, net	<u>1,872,481</u>
	<u>\$ 260,110,868</u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 713,054
Investments held for others	<u>199,631,284</u>
	200,344,338
Net assets	
Without donor restrictions	26,465,342
With donor restrictions	<u>33,301,188</u>
	<u>59,766,530</u>
	<u>\$ 260,110,868</u>

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statement of Activities

Year ended December 31, 2017

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

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statement of Functional Expenses

Year ended December 31, 2017

	Program Services			Supporting Activities			Total Expenses
	Trust Administration	Eldercare	Total Programming	General and Administrative	Development	Total Supporting	
Depreciation	\$ 32,849	\$ 12,102	\$ 44,951	\$ 16,424	\$ 25,068	\$ 41,492	\$ 86,443
Disbursements for beneficiaries and others	1,729,720	-	1,729,720	-	-	-	1,729,720
Office expense	98,618	32,654	131,272	83,920	70,277	154,197	285,469
Professional	60,922	-	60,922	38,977	24,767	63,744	124,666
Promotion and public relations	-	2,053	2,053	3,144	17,146	20,290	22,343
Salaries and benefits	582,027	160,873	742,900	488,519	559,637	1,048,156	1,791,056
Travel	3,560	7,520	11,080	5,349	31,688	37,037	48,117
	<u>\$ 2,507,696</u>	<u>\$ 215,202</u>	<u>\$ 2,722,898</u>	<u>\$ 636,333</u>	<u>\$ 728,583</u>	<u>\$1,364,916</u>	<u>\$4,087,814</u>

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Statement of Cash Flows

Year ended December 31, 2017

Operating Activities

Change in net assets	\$ 5,359,801
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	86,443
Gain on disposal of property and equipment	(280,799)
Investment income	(5,190,152)
Contributions restricted for long-term purposes	(2,154,960)
Changes in operating assets and liabilities	
Accounts receivable	568,858
Accounts payable and accrued expenses	112,537
Value of assets and liabilities associated with charitable remainder trusts and gift annuities	<u>145,886</u>
Net cash used in operating activities	(1,352,386)

Investing Activities

Proceeds from sale of investments	4,656,613
Purchases of investments	(4,721,418)
Proceeds from disposal of property and equipment	348,441
Purchases of property and equipment	<u>(36,832)</u>
Net cash provided by investing activities	246,804

Financing Activities

Proceeds from contributions restricted for investment in permanent endowment	<u>2,154,960</u>
Net cash provided by financing activities	<u>2,154,960</u>
Net increase in cash and cash equivalents	1,049,378
Cash and cash equivalents - beginning of year	<u>316,418</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,365,796</u></u>

See notes to financial statements.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Basis of Accounting

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 31, 2018, 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.

New Accounting Pronouncements

The Foundation adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, though early application of the amendments in the update is permitted. The Foundation adopted the update for the year ended December 31, 2017. Under the newly adopted update, the Foundation now presents net assets without donor restrictions and net assets with donor restrictions. The Foundation also presents a statement of functional expenses.

The Foundation also adopted Accounting Standards Update 2015-07, *Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. The amendments in the update exempts investments measured using the net asset value ("NAV") practical expedient in ASC 820 *Fair Value Measurement*, from categorization within the fair value hierarchy. However, an entity is required to disclose the fair value of investments measured using the NAV practical expedient so that users of the financial statements can reconcile amounts reported in the fair value hierarchy table to amounts reported on the statement of financial position. The Foundation adopted the update for the year ended December 31, 2017.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2017

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

The Foundation considers all instruments with an original maturity of three months or less to be cash and cash equivalents. Cash equivalents consist of money market securities stated at fair value which approximates cost. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. These amounts represent actual account balances held by financial institutions at the end of the period, and unlike the balances reported in the financial statements, the account balances do not reflect timing delays inherent in reconciling items such as outstanding checks and deposits in transit. The Foundation has never experienced any losses related to these balances.

Receivables

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

Property and Equipment

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

Investments

Investments in debt and equity securities with readily determinable fair values are recorded at fair market value. Investments without readily determinable fair values are recorded at cost, or if impaired, at estimated realizable value. The Foundation's investments as of December 31, 2017 consisted primarily of funds invested in fixed-income and equity securities and hedge funds.

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

Notes to Financial Statements

December 31, 2017

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments - Continued

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

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

The Board of Directors and management of the Foundation have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent donor stipulations to the contrary. As a result of this interpretation, the Foundation 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 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% or 2.67% at December 31, 2017), 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 contributions with donor restrictions upon receipt of assets funding such agreements. The Foundation also recognizes contributions related to certain trusts that do not provide for specific beneficiaries and trust agreements that grant the Foundation variance power as related to the trust assets and/or income.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2017

(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 included 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 were restricted for the exclusive benefit of their respective beneficiaries and were transferred to the net assets of the Foundation during the year ended December 31, 2017 upon the death of the 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, 2017, approximately 35% of total investments were invested in a mutual fund and a limited investment company.

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, 2017 based on an assessment of many factors including experience and interpretations of applicable tax laws.

THE BAPTIST FOUNDATION OF ALABAMA
Notes to Financial Statements
December 31, 2017
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

THE BAPTIST FOUNDATION OF ALABAMA
Notes to Financial Statements
December 31, 2017
(Continued)

NOTE 2 - LIQUIDITY AND AVAILABILITY

The following table reflects the Foundation’s financial assets at December 31, 2017, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year. Amounts not available include amounts set aside for long-term investing in the board-designated endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or board-designated endowment for general expenditure within one year have not been subtracted as unavailable.

At December 31, 2017, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, consist of the following:

Financial assets	\$ 258,238,387
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions	
Restricted by donor with purpose restrictions	1,081,294
Subject to appropriation and satisfaction of donor restrictions	32,219,894
Investments held for others	199,631,284
Board designations	
Endowment funds	4,889,260
Amounts set aside for:	
Operating reserves	1,322,068
Church estate stewardship	685,333
Church loans	1,451,266
	241,280,399
Financial assets available to meet cash needs for general expenditures within one year	\$ 16,957,988

THE BAPTIST FOUNDATION OF ALABAMA
Notes to Financial Statements
December 31, 2017
(Continued)

NOTE 3 - INVESTMENTS

Investments consisted of the following at December 31, 2017:

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

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

Investments	\$ 57,216,631
Investments held for others	199,631,284
	<u>\$ 256,847,915</u>

Transactions affecting assets held for others consisted of the following at December 31, 2017:

Balance - beginning of year	\$ 189,030,213
Deposits and additions	9,380,508
Investment income	18,361,136
Disbursements for beneficiaries and other withdrawals	(17,140,573)
Balance - end of year	<u>\$ 199,631,284</u>

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2017

(Continued)

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 (quasi-endowment). Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions and consisted of the following at December 31, 2017:

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

The 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 totaled \$339,091 and resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Foundation's Board of Directors.

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - beginning of year	\$ 4,619,647	\$ 28,777,886	\$ 33,397,533
Contributions	34,000	2,315,318	2,349,318
Investment income	447,413	2,288,518	2,735,931
Appropriation of endowment assets for expenditure	(211,800)	(1,161,828)	(1,373,628)
Endowment net assets - end of year	\$ 4,889,260	\$ 32,219,894	\$ 37,109,154

THE BAPTIST FOUNDATION OF ALABAMA
Notes to Financial Statements
December 31, 2017
(Continued)

NOTE 4 - ENDOWMENT - Continued

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

The Foundation's policy of appropriating for distribution each year is 4.25% of its endowment fund's average fair value over the prior 16 quarters through the calendar year end preceding the calendar year in which the distribution is planned. The percentage is decreased to 2.67% 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, 2017:

Land	\$ 696,687
Buildings and improvements	1,543,295
Furniture and fixtures	373,588
Automobiles	178,023
	<hr/>
	2,791,593
Less accumulated depreciation	919,112
	<hr/>
	<u>\$ 1,872,481</u>

THE BAPTIST FOUNDATION OF ALABAMA
Notes to Financial Statements
December 31, 2017
(Continued)

NOTE 6 - BOARD-DESIGNATED NET ASSETS

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

Board-designated endowment funds	
Purchase of property and equipment	\$ 181,383
Disaster relief	30,048
Scholarship	133,674
General purposes	4,544,155
	<u>4,889,260</u>
Amounts set aside for:	
Operating reserves	1,322,068
Church estate stewardship	685,333
Church loans	1,451,266
	<u>3,458,667</u>
	<u>\$ 8,347,927</u>

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes at December 31, 2017:

Subject to expenditure for a specific purpose	
Eldercare	\$ 269,822
Church loans	811,472
	<u>1,081,294</u>
Subject to the Foundation's spending policy and appropriation	
Net accumulated investment income and gains, which, once appropriated, are expendable to support:	
General purposes	1,926,971
Churches and associations	58,907
Children's home	207,133
Education	33,925
Eldercare	24,655
Missions	73,545
Scholarships	2,798,337
Other purposes	179,506

THE BAPTIST FOUNDATION OF ALABAMA
Notes to Financial Statements
December 31, 2017
(Continued)

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS - Continued

Investment in perpetuity, which, once appropriated, is expendable to support:

General purposes	7,850,176
Churches and associations	89,328
Children's home	1,486,159
Education	131,143
Eldercare	395,467
Missions	830,787
Scholarships	13,230,307
Other purposes	2,903,548
	32,219,894
	\$ 33,301,188

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors and consisted of the following at December 31, 2017:

Satisfaction of program restrictions	\$ 21,391
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	1,009,561
	\$ 1,030,952

NOTE 8 - FAIR VALUE

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

- *Cash and Cash Equivalents:* Valued at amortized cost which approximates fair value.
- *Investment Securities:* Valued based on quoted market prices, when available, or market prices provided by recognized broker dealers. Securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. Government-sponsored enterprises and commercial paper are stated at cost plus accrued interest, which approximates fair value.
- *Mortgages and Notes Receivable:* Valued based upon estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loan.

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2017

(Continued)

NOTE 8 - FAIR VALUE - Continued

- *Real Estate*: Valued based upon appraisals, which utilize inputs derived from or corroborated by observable market data.
- *Alternative Investments*: Valued based on the net asset value of the investment (or its equivalent) without further adjustment (unless management determines that the net asset value is deemed to be not reflective of fair value) since the alternative investments are investment companies that have calculated net asset value per share in accordance with the specialized accounting guidance for investment companies. The fair value of such investments generally represents the amount the Foundation would expect to receive if it were to liquidate its investment in the partnerships excluding any redemption charges that may apply.

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

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 19,643,450	\$ 19,643,450	\$ -	\$ -
Fixed income securities	60,392,373	60,392,373	-	-
Mutual funds	60,470,482	60,470,482	-	-
Marketable equity securities	36,245,092	36,245,092	-	-
Mortgages and notes receivable	1,256,280	-	1,256,280	-
Commercial real estate	255,000	-	255,000	-
Residential real estate	1,224,883	-	1,224,883	-
Timber and timberland	1,578,000	-	1,578,000	-
Other assets	1,119,209	465	1,118,744	-
Accrued income	441,055	441,055	-	-
	182,625,824	177,192,917	5,432,907	-
Alternative investments	74,222,091	-	-	-
	<u>\$ 256,847,915</u>	<u>\$ 177,192,917</u>	<u>\$ 5,432,907</u>	<u>\$ -</u>

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2017

(Continued)

NOTE 8 - FAIR VALUE - Continued

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

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

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

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

THE BAPTIST FOUNDATION OF ALABAMA

Notes to Financial Statements

December 31, 2017

(Continued)

NOTE 8 - 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.
- *Courage Credit Opportunities Offshore Fund III, L.P.*: Achieve investment returns while emphasizing distressed investments in financially troubled companies, including those of companies that may, or have, become involved in reorganization or bankruptcy proceedings.
- *Private Advisors Hedged Equity Fund (QP), Ltd.*: Seek long-term capital appreciation above historical equity returns, over a full market cycle, with volatility that is lower than that of the equity market and returns that demonstrate a low correlation to both the equity and fixed income markets.
- *Undiscovered Value Fund, Ltd.*: Seek long-term appreciation above historical equity returns over a full market cycle with volatility that is lower than that of the equity market.
- *RMS Forest Growth Fund III, LP*: Invest in timberland properties and/or long-term timberland leaseholds or project ventures which invest in timberland properties or long-term timberland leaseholds.
- *U.S. Farming Realty Trust II, LP*: Achieve short-term distributable cash income and long-term capital appreciation through investments in a diversified portfolio of farmlands to be leased to farming operators or to use for direct farming operations.
- *Ceres Farms, LLC*: Generate an attractive total return through the acquisition and management of farmland in the Midwestern United States of America.

NOTE 9 - RETIREMENT PLANS

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

The Foundation also sponsors a deferred compensation plan. Deferred compensation expense totaled \$50,000 during the year ended December 31, 2017, and the related liability totaled \$681,602 at December 31, 2017.

THE BAPTIST FOUNDATION OF ALABAMA
Notes to Financial Statements
December 31, 2017
(Continued)

NOTE 10 - RELATED PARTY TRANSACTIONS

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

NOTE 11 - FUNCTIONAL EXPENSES

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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

2018	\$ 5,880
2019	5,640
2020	5,640
2021	5,640
2022	5,640
Thereafter	1,880
	<u>\$ 30,320</u>