

BAPTIST FOUNDATION OF ILLINOIS

Financial Statements
With Independent Auditors' Report

December 31, 2015

BAPTIST FOUNDATION OF ILLINOIS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Baptist Foundation of Illinois
Springfield, Illinois

We have audited the accompanying financial statements of Baptist Foundation of Illinois, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Baptist Foundation of Illinois as of December 31, 2015, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Restatement

As discussed in Note 16 to the financial statements, certain errors in previously reported net assets as of December 31, 2014, were discovered during the current year. Accordingly, the opening net asset balances as of December 31, 2014, have been adjusted to correct these errors. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Capin Crouse LLP".

Wheaton, Illinois
April 11, 2016

BAPTIST FOUNDATION OF ILLINOIS

Statement of Financial Position

December 31, 2015

ASSETS:

Cash and cash equivalents	\$ 331,231
Accrued interest and other receivables	58,239
Pledge receivable	112,377
Property and equipment, net	19,564
Loans receivable	5,937,518
Beneficial interest in split interest agreements	14,220
Investments held for endowment	2,728,281
	<u>9,201,430</u>

Assets held in trust and for others:

Cash and cash equivalents	1,471,586
Accrued interest	231,634
Reverted church assets	605,000
Investments	15,828,479
Beneficial interest in split interest agreements	30,911
Assets held in trust	1,884,693
	<u>20,052,303</u>

Total Assets \$ 29,253,733

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable and accrued expenses	\$ 124,548
Bonds payable	5,654,000
	<u>5,778,548</u>

Funds held in trust and for others:

Funds held as trustee under permanent endowments	4,033,996
Funds held under custodial fund agreements	14,133,614
Trust liabilities	1,884,693
	<u>20,052,303</u>

Total liabilities 25,830,851

Net assets:

Unrestricted:

Board designated	411,453
Donor advised funds	125,707
Undesignated	248,830
Temporarily restricted	672,424
Permanently restricted	1,964,468
Total net assets	<u>3,422,882</u>

Total Liabilities and Net Assets \$ 29,253,733

See notes to financial statements

BAPTIST FOUNDATION OF ILLINOIS

Statement of Activities

Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE AND RECLASSIFICATIONS:				
Investment income	\$ 2,913	\$ 42,356	\$ -	\$ 45,269
Contributions	51,367	-	13,690	65,057
Change in value of split interest agreements	-	(1,801)	-	(1,801)
Fees for asset management and administration	115,878	-	-	115,878
Illinois Baptist State Association support	153,309	-	-	153,309
Interest received on loans receivable	215,429	4,049	-	219,478
Net assets released from purpose restrictions	80,916	(80,916)	-	-
	619,812	(36,312)	13,690	597,190
EXPENSES:				
Program services:				
Estate planning, trust, investment and lending services for IBSA organizations	223,320	-	-	223,320
Bond interest expense	144,053	-	-	144,053
Distributions to students and other charitable causes	187,000	-	-	187,000
	554,373	-	-	554,373
Supporting activities:				
Management and general	129,135	-	-	129,135
	683,508	-	-	683,508
Change in Net Assets	(63,696)	(36,312)	13,690	(86,318)
Net Assets, Beginning of Year:				
As previously stated	849,686	1,045,224	3,523,425	5,418,335
Prior period adjustment (Note 16)	-	(336,488)	(1,572,647)	(1,909,135)
As restated	849,686	708,736	1,950,778	3,509,200
Net Assets, End of Year	\$ 785,990	\$ 672,424	\$1,964,468	\$3,422,882

See notes to financial statements

BAPTIST FOUNDATION OF ILLINOIS

Statement of Cash Flows

Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (86,318)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	815
Realized and unrealized losses on investments	98,480
Change in value of split interest agreements	1,801
Contributions restricted for investment in endowment	(13,690)
Changes in:	
Accrued interest and other receivables	3,436
Accounts payable and accrued expenses	(1,795)
Net Cash Provided by Operating Activities	<u>2,729</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of investments	108,801
Purchase of investments	(98,288)
Loan advances	(1,807,000)
Loan principal received	381,433
Purchase of property and equipment	(20,379)
Net Cash Used by Investing Activities	<u>(1,435,433)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Issuance of bonds	1,687,000
Redemption of bonds	(253,000)
Contributions restricted for investment in endowment	13,690
Net Cash Provided by Financing Activities	<u>1,447,690</u>

Net Change in Cash and Cash Equivalents 14,986

Cash and Cash Equivalents, Beginning of Year 316,245

Cash and Cash Equivalents, End of Year \$ 331,231

SUPPLEMENTAL INFORMATION:

Cash paid for interest \$ 144,053

See notes to financial statements

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

1. NATURE OF ORGANIZATION:

The objective of the Baptist Foundation of Illinois (Foundation) is to serve any religious, benevolent, charitable, educational or missionary activity undertaking, institution or agency sponsored or sanctioned by the Illinois Baptist State Association. Activity of the Foundation is executed in the furtherance and development of ministry projects or other enterprises, operated by or under the supervision of, or sponsored or sanctioned by the Illinois Baptist State Association.

The Foundation's primary sources of funding is interest income, fee income and contributions.

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Foundation has been classified as an organization that is not a private foundation under IRC Section 509(a)(3).

2. SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF ACCOUNTING

The financial statements of the Foundation have been prepared using the accrual basis of accounting. The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP), requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes deposits in banks. Other accounts such as money market accounts are considered investments regardless of their original maturity. The Foundation maintains cash and cash equivalents in financial institutions which may, at times, exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

INVESTMENTS

Investments placed with LPL Financial consist of equity securities with readily determinable fair values and debt securities reported at fair value, which is based on quoted market prices. Investments placed with Southern Baptist Foundation are held in various investment pools (Pooled Funds) and are stated at fair value. The funds deposited in the Pooled Funds are invested in money market funds, equities, government bonds and corporate bonds. The Pooled Funds allocate all interest and dividend income and unrealized gain or loss to the participant's deposit in the pool. Investments placed with The Baptist Foundation of Oklahoma (BFO) are held at cost plus accrued interest. Investments at BFO invest primarily in the debt of Southern Baptist Churches and earn a fixed rate over the term of the investment. Real estate is carried at fair market value and certificates of deposit are carried at cost.

Investment income and realized and unrealized gains and losses are included in unrestricted investment income unless a donor or law temporarily or permanently restricts their use.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

LOANS RECEIVABLE

Loans receivable consist of loans to Illinois Baptist State Association churches and organizations, secured by real estate mortgages. Most of the loans are set up for a term of twenty years. Loans receivable are carried at their estimated collectible amounts. The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb probable loan losses. The amount is based upon an analysis of the loan portfolio by management including, but not limited to, review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for potential loan losses in the period in which they become known. As of December 31, 2015, no provision for loan losses has been recorded.

A loan is considered impaired when, based upon current information and events, it is probable that the Foundation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are classified as delinquent when payments are 90 days overdue. Delinquent loans continue to accrue interest. Payments on delinquent and impaired loans are recorded first as interest income and then as a reduction in principal. The accrual of interest income is discontinued when, in management's judgement, the scheduled interest may not be collectible within the stated term of the loan. Interest income is recognized on a cash basis for loans classified as nonaccrual loans, with subsequent payments applied first to interest and fees, if any, and then to principal. Loans classified as nonaccrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

ASSETS HELD IN TRUST AND TRUST LIABILITY

Assets held in trust consist of charitable remainder trusts with revocable and irrevocable beneficiary interests. Assets held in trust are valued the same as investments. Gains and losses (including realized and unrealized) from all of these assets are reported as a component of trust liability since the trustor has the ability to change the remainderman until the point the trust matures or the trust benefits endowments benefiting other organizations. Trust liability includes irrevocable charitable remainder unitrusts and revocable charitable remainder unitrusts and represents the present value of future cash flows to income beneficiaries and the portion of trusts due other remaindermen. The present value of future cash flows to income beneficiaries is computed using published mortality rate tables adopted by the IRS at an assumed rate of return based on the current applicable federal rate to determine the present value of the actuarially determined liability. The resulting actuarial gain or loss is recorded directly to the due other remaindermen liability.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

FUNDS HELD FOR OTHERS

Funds held for others consist of those assets held as trustee under permanent endowments for the benefit of other organizations and those assets held on behalf of other organizations and individuals under custodial fund agreements. These assets are valued the same as investments and comingled with other Foundation assets. The Foundation includes in its financial statements all assets that it accepts from a donor on behalf of other organizations, including nonfinancial assets. All activity related to these assets is recorded directly to assets and a corresponding liability account as they are accounted for as agency funds.

CLASSES OF NET ASSETS

Information regarding financial position and activities is reported in three classes of net assets based on the existence of, or absence of, donor-imposed restrictions. Net assets are classified as follows:

Unrestricted net assets are those currently available for Foundation purposes under the direction of the Board and those designated by the Board for specific use.

Temporarily restricted net assets are those contributed with donor stipulations for specific operating purposes or programs, those with time restrictions, undistributed endowment investment income, or those not currently available for use until commitments regarding their use have been fulfilled or lifetime beneficiary interests have ceased.

Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as per endowment agreements.

SUPPORT AND REVENUE

Contributions to gift agreements, including donor advised funds, are reported as income when made, which may be when cash is received, unconditional promises are made or ownership of donated assets is transferred. Fees and other income includes management fees, rent and other miscellaneous income and is recognized as earned. Noncash gifts are recorded at their estimated fair market value at the date of donation. Investment income is recognized when earned. Contributed services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. Approximately \$89,000 in contributed services were recognized as revenue and included in general and administrative expense for the year ended December 31, 2015.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Pledge receivable represents amounts expected to be collected within one year.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

EXPENSES AND DISTRIBUTIONS

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Grants to qualified organizations in accordance with various gift agreements are recognized when the grants are approved by the Foundation or upon maturity of the agreement at the donor's death. Operating expenses are recognized when incurred in accordance with the accrual basis of accounting and include certain costs associated with administration of gift agreements. The costs of providing various program services and supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon an examination. Interest and penalties, if any, are included in expenses in the statement of activities. As of December 31, 2015, the Foundation had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

RECENTLY ADOPTED STANDARDS

Accounting Standards Update (ASU) 2015-07 updates the *Fair Value Measurement* topic of the Financial Accounting Standards Board Accounting Standards Codification. The primary change resulting from ASU 2015-07 is updated disclosure requirements for investments valued at net asset value, which removes the requirement to categorize these investments within the fair value hierarchy. ASU 2015-07 is effective for fiscal years after December 15, 2016, with early adoption permitted. The Foundation has elected to adopt ASU 2015-07 for the year ended December 31, 2015. The financial statements and disclosures reflect these updates.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

3. INVESTMENTS:

Investments consist of the following as of December 31, 2015:

At fair value:

LPL Financial:

Money market funds	\$ 194,193
Corporate bonds	694,195
Municipal bonds	11,735,245
Preferred stock	887,218

Southern Baptist Foundation:

Balanced fund	42,187
Flexible income fund	199,115
Income fund	637,026
Short term fund money market	2,238
Growth fund	60,511

Real estate	1,132,576
	<u>15,584,504</u>

At cost:

Certificate of deposit	250,000
The Baptist Foundation of Oklahoma:	
CBL term investments	2,713,912
Money market funds	8,344
	<u>18,556,760</u>

Less:

Investments held for endowment	<u>(2,728,281)</u>
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\$ 15,828,479

Investment income reported in the statement of activities consists of the following for the year ended December 31, 2015*:

Interest and dividend income	\$ 175,247
Net realized and unrealized losses	(98,480)
Bond amortization	(20,637)
Investment management and custodial fees	<u>(10,861)</u>
	<u><u>\$ 45,269</u></u>

*Investment income reported in the statement of activities only includes those assets that are held for the benefit of the Foundation. See Notes 6 and 7 for investment earnings on funds held for others.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

4. LOANS RECEIVABLE:

At December 31, 2015, the Foundation had 30 loans with interest rates ranging from 4.25% - 5.35% and balances as follows:

Loan Balance	Number of Loans	Principal Outstanding	Percent of Loan Portfolio
\$ 0 - \$100,000	10	\$ 417,607	7%
\$ 100,001 - \$300,000	12	2,098,049	35%
Over \$300,000	8	3,421,862	58%
	30	\$ 5,937,518	100%

The Foundation evaluates loans for impairment on an individual basis if the loan is more than 90 days delinquent. These loans are then given a specific allowance based on the estimated net realizable value of property serving as collateral. All other loans are evaluated for allowance on a collective basis. At December 31, 2015, all loans were collectively evaluated and no impairment was noted.

Status for performing and nonperforming real estate loans is based on payment activity for the year. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when days delinquent is greater than 60 days in the previous month. The following table presents credit exposure by performance status as of December 31, 2015:

Performing	\$ 5,937,518
Nonperforming	-
	\$ 5,937,518

The Foundation classifies loans as past due if the loan is more than 30 days past due but less than 90 days delinquent. There were no past due loans or loans classified as delinquent or impaired as of December 31, 2015.

Loans receivable at December 31, 2015, will mature as follows:

Year	Amount
2016	\$ 230,664
2017	240,993
2018	251,785
2019	252,713
2020	264,092
Thereafter	4,697,271
	\$ 5,937,518

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

5. ASSETS HELD IN TRUST:

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's statement of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions.

The assets of the remainder trust funds are invested in the following as of December 31, 2015:

LPL Financial:	
Money market funds	\$ 28,236
Municipal bonds	403,348
Preferred stock	33,002
Mutual funds	34,055
Common stock	39,277
Southern Baptist Foundation:	
Balanced fund	75,775
Real estate	1,271,000
	<hr/>
	\$ 1,884,693
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Trust liabilities consist of the following as of December 31, 2015:

Irrevocable charitable beneficiary - payment liability	\$ 49,608
Revocable charitable beneficiary (liability equals assets)	296,201
Custodial irrevocable trust agreement	1,498,597
Remainder interest of irrevocable trusts held as trustee under permanent endowment agreements for the benefit of other organizations	40,287
	<hr/>
	\$ 1,884,693
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BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

6. FUNDS HELD AS TRUSTEE UNDER PERMANENT ENDOWMENTS:

The Foundation is the recipient of approximately 60 endowment agreements whose earnings are to be used to support other organizations. These agreements are accounted for as agency funds. The following is a summary of activity for these agreements for the year ended December 31, 2015:

Balance beginning of year, as restated (Note 16)	<u>\$ 3,010,770</u>
Investment return:	
Interest and dividends	122,009
Realized and unrealized losses	(59,470)
Bond amortization	(13,939)
Investment management and custodial fees	<u>(6,603)</u>
	41,997
Change in value of split interest agreements	(5,407)
Amounts appropriated for expenditure	(88,335)
Contributions	<u>1,074,971</u>
	<u>1,023,226</u>
Balance, end of year	<u><u>\$ 4,033,996</u></u>

7. FUNDS HELD UNDER CUSTODIAL FUND AGREEMENTS:

The Foundation holds funds placed on deposit by various organizations and other individuals under custodial fund agreements. The following is a summary of activity for these agreements for the year ended December 31, 2015:

Balance, beginning of year, as restated (Note 16)	<u>\$ 11,974,542</u>
Investment return:	
Interest and dividends	604,910
Realized and unrealized losses	(323,228)
Bond amortization	(46,590)
Investment management and custodial fees	<u>(27,369)</u>
	207,723
Withdrawals	(2,146,034)
Deposits	<u>4,097,383</u>
	<u>2,159,072</u>
Balance, end of year	<u><u>\$ 14,133,614</u></u>

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

8. BONDS PAYABLE:

Following is a summary of bonds payable as of December 31, 2015:

Description	Interest Rate	Maturity	Issued	Balance
BFI Bond Issue 2013A	3.00%	5/8/33	\$ 335,000	\$ 306,000
BFI Bond Issue 2013B	3.00%	6/3/33	136,000	28,000
BFI Bond Issue 2013D	3.00%	6/21/33	275,000	252,000
BFI Bond Issue 2013E	3.00%	8/21/33	579,000	534,000
BFI Bond Issue 2013F	3.00%	9/12/33	150,000	104,000
BFI Bond Issue 2013H	3.00%	9/25/33	718,000	665,000
BFI Bond Issue 2013I	3.00%	9/23/33	50,000	21,000
BFI Bond Issue 2013J	3.00%	9/24/33	25,000	23,000
BFI Bond Issue 2013K	3.00%	12/19/33	235,000	219,000
BFI Bond Issue 2013L	3.00%	12/20/33	250,000	224,000
BFI Bond Issue 2013M	3.00%	1/15/34	148,000	139,000
BFI Bond Issue 2013N	3.00%	2/4/34	150,000	136,000
BFI Bond Issue 2014B	3.00%	3/19/34	318,000	300,000
BFI Bond Issue 2014D	3.75%	3/19/34	78,000	74,000
BFI Bond Issue 2014E	3.25%	5/5/34	120,000	111,000
BFI Bond Issue 2014F	3.25%	9/9/34	444,000	426,000
BFI Bond Issue 2014G	3.25%	10/28/34	110,000	100,000
BFI Bond Issue 2014H	3.25%	12/15/34	324,000	308,000
BFI Bond Issue 2014I	3.25%	2/23/15	149,000	146,000
BFI Bond Issue 2015B	1.25% - 4.25%	6/1/16 - 6/1/20	42,000	42,000
BFI Bond Issue 2015C	1.25% - 4.25%	6/30/16 - 6/30/20	550,000	550,000
BFI Bond Issue 2015D	1.25% - 4.25%	9/30/16 - 9/30/20	331,000	331,000
BFI Bond Issue 2015F	1.25% - 4.25%	12/1/16 - 12/1/20	250,000	250,000
BFI Bond Issue 2015G	1.25% - 4.25%	1/30/16 - 11/30/20	315,000	315,000
BFI Bond Issue 2015H	1.25% - 4.25%	12/1/16 - 12/1/20	50,000	50,000
			<u>\$ 6,132,000</u>	<u>\$ 5,654,000</u>

Each bond is tied to a loan issued by the Foundation to a church to help meet their construction needs. These loans are secured by a first position mortgage against church property. Underwriting for each loan is based upon a completed analysis that includes:

- A. Completed application with church budget documentation, insured values personal inspection of the property, and personal interviews with church lay and ordained leadership.
- B. Analysis of financials to include a maximum of a 50% loan to value ratio of the loan.
- C. Analysis of financials to include ability to pay at a maximum of a 25% loan payment to unrestricted church income.
- D. Each loan is independently reviewed and approved by the investment committee of the Foundation.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

8. BONDS PAYABLE, continued:

Bonds from each issue were sold on a subscription basis and were sold in \$1,000 denominations. Sales were restricted to Illinois Baptist Churches, IBSA institutions and individual members of Illinois Baptist Churches. Interest is paid semi-annually at a coupon rate as noted above. The maturity date of the 2013 and 2014 issue bonds is the loan closing date plus twenty years for each bond issue. Bonds are redeemable from the regular payment of principal as well as the pre-payment of principal. Redemptions from regularly scheduled principal payments occur on an annual basis, and the redemptions from pre-payment of principal occur on a quarterly basis. Bonds are called and redeemed in reverse order of their subscription, unless individual bondholders express a preference for early redemption. The 2015 issue bonds are issued as one-year, two-year, three-year, four-year and five-year bonds from the loan closing date for each bond issue.

Amounts presented in the schedule below are estimated bond maturity dates based on the year in which the bonds payable are scheduled to mature or the related loan receivable is schedule to mature as of December 31, 2015:

Year of Maturity	Amount
2016	\$ 359,000
2017	445,000
2018	496,000
2019	579,000
2020	557,000
Thereafter	3,218,000
	\$ 5,654,000

9. NET ASSETS:

Temporarily restricted net assets consist of the following as of December 31, 2015:

Beneficial interest in split interest agreements	\$ 14,220
Unexpended endowment income	658,204
	\$ 672,424

Permanently restricted net assets consist of the following as of December 31, 2015:

Pledge receivable (proceeds to fund endowment)	\$ 112,377
Endowment funds	1,852,091
	\$ 1,964,468

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

10. ENDOWMENT FUNDS:

The Foundation's endowment consists of approximately 31 individual funds established for scholarships and a variety of other purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds absent explicit 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 permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment 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 fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
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 organization
7. The investment policies of the organization

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

10. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ -	\$ 658,204	\$ 1,852,091	\$ 2,510,295
Board designated funds	411,453	-	-	411,453
 Total funds	 \$ 411,453	 \$ 658,204	 \$ 1,852,091	 \$ 2,921,748

Changes in endowment net assets for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 354,337	\$ 692,715	\$ 1,838,401	\$ 2,885,453
Investment return:				
Interest and dividends	20,408	154,811	-	175,219
Loan interest	-	4,049	-	4,049
Realized and unrealized losses	(7,058)	(86,454)	-	(93,512)
Bond amortization	(3,057)	(17,580)	-	(20,637)
Investment management and custodial fees	(1,442)	(8,421)	-	(9,863)
Total investment return	8,851	46,405	-	55,256
Contributions	1,150	-	13,690	14,840
Amounts appropriated for expenditure	(27,885)	(80,916)	-	(108,801)
Transfer to board designated endowment	75,000	-	-	75,000
	57,116	(34,511)	13,690	36,295
Endowment net assets, end of year	\$ 411,453	\$ 658,204	\$ 1,852,091	\$ 2,921,748

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

10. ENDOWMENT FUNDS, continued:

Description of amounts classified as permanently restricted net assets, temporarily restricted net assets and unrestricted net assets (endowment only) as of December 31, 2015:

Permanently restricted net assets:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or by UPMIFA.	\$ 1,852,091
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Temporarily restricted net assets:

The portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	658,204
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Unrestricted net assets:

Board designated endowments	<u>411,453</u>
	<u>\$ 2,921,748</u>

Endowment assets consist of the following as of December 31, 2015:

Cash	\$ 32,483
Investments	2,728,281
Interest receivable	42,080
Loan receivable	<u>118,904</u>
	<u>\$ 2,921,748</u>

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature as of December 31, 2015.

Return Objectives and Risk Parameters: 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. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a target yield of 5%, net of fees. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Foundation favors an investment strategy that emphasizes predictable income yield while seeking to preserve the historic value of the underlying asset lass.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

10. ENDOWMENT FUNDS, continued:

Spending Policy and How the Investment Objectives Related to Spending Policy: In 2012, the Board established a spending policy of 3.2% of endowments, based on both total return and income yield. Distributions are calculated based on the average balance from the previous five quarters, multiplied by the approved endowment declaration. This spending policy does not apply to endowments with prescribed distribution instructions as provided by the donor.

11. RETIREMENT PROGRAM:

The Foundation maintains a 403(b) retirement program with GuideStone Financial Resources of the Southern Baptist Convention. The plan covers all employees who work at least 1,500 hours annually. The Association contributes an amount equal to 10% of the eligible employee's compensation, as defined. The Foundation's contributions for the year ended December 31, 2015, were approximately \$10,000.

12. CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and loans receivable.

From time to time, cash deposits are in excess of FDIC insured limits; while management is mindful of the FDIC limits, they realize that cash balances generated in the ordinary course of business will generally exceed FDIC insured limits. At December 31, 2015, approximately \$14 million of the Foundation's investment portfolio was held by the investment management firm of LPL Financial through the Bank of Springfield. The Foundation has not experienced any losses on these accounts and does not believe it is exposed to any significant risk of loss related to these.

Concentrations of credit risk with respect to loans receivable are limited to a certain extent by the secured position of the Foundation and the number of organizations comprising the Foundation's loans receivable base. Loans made by the Foundation are secured by first mortgages and are limited to 50% of the aggregate cost or value of the property securing the loan. While the Foundation may be exposed to credit losses in the event of nonperformance by the above contracting parties, management believes the underlying assets of the loans are adequate to cover any such losses.

13. LOAN COMMITMENTS:

In the normal course of business, the Foundation makes commitments to extend loans to meet the financing needs of Illinois Baptist State Association churches. At December 31, 2015, the Foundation had outstanding commitments of \$739,000 to Foundation real estate mortgages.

Outstanding commitments are letters that outline the terms and conditions of the mortgage to be granted. The Foundation's exposure to credit loss, in the event of nonperformance by the churches to which it has extended commitments, is limited to the amount of the commitment. The Foundation controls the credit risk of its commitments through credit approvals, limits and monitoring procedures.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

14. RELATED PARTY TRANSACTIONS:

The Board of Trustees of each the Foundation, Illinois Baptist State Association (IBSA) and Illinois Baptist Children's Home and Family Services (BCHFS) are elected annually from the association of messengers from Baptist Churches; therefore, these institutions are related parties.

The Foundation holds the following funds for related parties as of December 31, 2015:

IBSA:

Assets held as trustee under permanent endowments	\$ 2,000,358
Assets held under custodial fund agreements	4,447,450
	<u>6,447,808</u>

BCHFS:

Assets held as trustee under permanent endowments	783,126
Assets held under custodial fund agreements	1,248,819
	<u>2,031,945</u>
	<u>\$ 8,479,753</u>

The Foundation receives a non-cash contribution from IBSA for certain direct operating costs such as rent, telephone, information technology support, postage and corporate insurance totaling \$64,537 for the year ended December 31, 2015. The Foundation also uses IBSA employees for a portion of its operations and receives a non-cash contribution for the value of this time which was \$153,309 for the year ended December 31, 2015. As of December 31, 2015, the Foundation had \$37,634 due to IBSA related to direct operating and employee costs.

During the course of business, the Foundation often has related party transactions with its board members. Board members regularly invest in the Foundation as well as hold outstanding bonds payable. In addition, the Foundation's board members often serve on the boards or in key leadership positions of churches and other organizations that have transactions with the Foundation including custodial fund agreements, loans receivable and ponds payable. Management does not believe it has a significant concentration of risk related to these dealings since the mission of the Foundation is to serve IBSA institutions.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

15. FAIR VALUE MEASUREMENTS:

The Foundation uses appropriate valuation techniques to determine fair value based on inputs available. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available. The valuations for each of these levels are determined as follows:

Level 1 - Quoted prices for identical instruments traded in active markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets or model-based valuations where significant assumptions are observable.

Level 3 - Model-based techniques using significant assumptions that are not observable. These unobservable assumptions reflect estimates of assumptions that market participants would use.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Money market funds, common stock and preferred stock: The fair values are based on quoted market prices.

Corporate and municipal bonds: The fair values of certain corporate bonds for which quoted market prices are not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond- or credit-default swap spreads and volatility.

Real estate: The fair value is based on appraised values at the time those assets were available to the Foundation.

Southern Baptist Foundation (SBF) Pooled fund investments: Pooled fund investments consist of five pooled funds at SBF which are not valued based upon quoted market prices. Underlying investments of the pooled funds include money market funds, equities, government bonds and corporate bonds. These investments are reported at estimated fair value as measured by their net asset value as reported by SBF. The amount represents the Foundation's proportionate interest in the capital of the invested funds.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

15. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2015:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	\$ 194,193	\$ -	\$ -	\$ 194,193
Corporate bonds	-	694,195	-	694,195
Municipal bonds	-	11,735,245	-	11,735,245
Preferred stock	887,218	-	-	887,218
Real estate	-	1,132,576	-	1,132,576
Southern Baptist Foundation*				941,077
	<u>1,081,411</u>	<u>13,562,016</u>	<u>-</u>	<u>15,584,504</u>
Trust assets:				
Money market funds	28,236	-	-	28,236
Municipal bonds	-	403,348	-	403,348
Preferred stock	33,002	-	-	33,002
Mutual funds	34,055	-	-	34,055
Common stock	39,277	-	-	39,277
Real estate	-	1,271,000	-	1,271,000
Southern Baptist Foundation*				75,775
	<u>134,570</u>	<u>1,674,348</u>	<u>-</u>	<u>1,884,693</u>
	<u>\$ 1,215,981</u>	<u>\$ 15,236,364</u>	<u>\$ -</u>	<u>\$ 17,469,197</u>

*Investment with Southern Baptist Foundation is measured at net asset value and excluded from the fair value hierarchy.

The Foundation uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The Foundation's investment consists of five pooled funds that calculate NAV per share (or its equivalent) and use an investment strategy that includes long and short term strategies. These funds have no lockup restrictions and are normally redeemable upon notice. There are no unfunded commitments and no redemption restrictions in place at year end. The Foundation's investment in these funds was \$1,016,852 as of December 31, 2015. These funds are excluded from the fair value hierarchy because they are measured at NAV.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

16. PRIOR PERIOD ADJUSTMENTS:

The following adjustments were made to beginning net assets:

	December 31, 2014		
	As Previously Stated	Adjustments	Restated
Unrestricted	\$ 849,686	\$ -	\$ 849,686
Temporarily restricted:			
Beneficial interest in split interest agreements	52,339	(36,318)	16,021
Unitrusts - restricted beneficiaries	143,318	(143,318)	-
Unexpended endowment income	849,567	(156,852)	692,715
	1,045,224	(336,488)	708,736
Permanent restricted:			
Pledge receivable	-	112,377	112,377
Endowment funds	3,523,425	(1,685,024)	1,838,401
	3,523,425	(1,572,647)	1,950,778
	\$ 5,418,335	\$ (1,909,135)	\$ 3,509,200

Had these amounts been properly recorded in the prior financial statements, change in net assets would have been \$596,235, a decrease of \$161,812 from previously reported amounts.

RECLASSIFICATION OF BENEFICIAL INTEREST IN SPLIT INTEREST AGREEMENTS

Beneficial interest in split interest agreements are to be recorded as funds held for others if the agreement benefits other remainderman through an endowment that the Foundation owns. In previous years' financial statements, this amount was included in temporarily restricted net assets. Therefore, an adjustment was made to the beginning net assets for the year ended December 31, 2014, to reclassify \$36,318 included in temporarily restricted net assets as a liability.

RECLASSIFICATION OF UNITRUST LIABILITY

Charitable remainder trusts are to be recorded as trust liability if the trustor has the ability to change the remainderman until the point the trust matures or if the trust benefits other remainderman. In previous years' financial statements, this amount was included in temporarily restricted net assets. Therefore, an adjustment was made to the beginning net assets for the year ended December 31, 2014, to reclassify \$143,318 included in temporarily restricted net assets as a liability.

RECORDING OF PLEDGE RECEIVABLE

During 2014, the Foundation received a pledge receivable benefiting an endowment fund for \$158,000, of which \$112,377 was outstanding as of December 31, 2014. Contributions should be recorded as revenue in the period received, whether that is cash received or an unconditional pledge is received. Therefore, an adjustment was made to the beginning net assets for the year ended December 31, 2014, to record \$112,377 as an asset and permanently restricted net assets.

BAPTIST FOUNDATION OF ILLINOIS

Notes to Financial Statements

December 31, 2015

16. PRIOR PERIOD ADJUSTMENTS, continued:

RECLASSIFICATION OF ENDOWMENT FUNDS

Assets received from a donor that are intended to be used on behalf of another organization, including the return on those assets, are to be recorded as a liability to the specified beneficiary. The Foundation is the recipient of certain endowment agreements that are designated by donors to benefit other organizations. In previous years' financial statements, this amount was recorded in permanently restricted net assets and the unexpended income was recorded in temporarily restricted net assets. Therefore, an adjustment was made to reclassify \$156,852 and \$1,685,024 included in temporarily restricted net assets and permanently restricted net assets, respectively, as a liability. In addition during 2012, a life estate was granted to the Foundation to benefit an endowment agreement that was designated by the donor to benefit other organizations. An asset and corresponding liability of \$1,132,576 was previously not recorded for this endowment fund.

CUSTODIAL FUNDS

During 2012, the Foundation received a certificate of deposit under a custodial fund agreement. The asset and corresponding liability of \$250,000 was previously not recorded for this custodial fund. In addition, during 2014, the Foundation received additional assets held in trust for a custodial trust agreement. The asset and corresponding liability of \$1,271,000 was previously not recorded for this managed trust agreement.

17. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.