



**BAPTIST FOUNDATION OF ILLINOIS**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**For the Years Ended December 31, 2018 and 2017**



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**BAPTIST FOUNDATION OF ILLINOIS**  
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## **Independent Auditor's Report**

Board of Trustees  
Baptist Foundation of Illinois  
Springfield, Illinois

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Baptist Foundation of Illinois (Foundation), which comprise the statement of financial position as of December 31, 2018, 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.

### **Auditor's 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 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Prior Period Financial Statements**

The financial statements of Baptist Foundation of Illinois as of December 31, 2017, were audited by other auditors whose report dated June 14, 2019, expressed an unmodified opinion on those statements.

### **Emphasis of Matter Regarding a Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Foundation adopted new accounting guidance as issued by the Financial Accounting Standards Board under Financial Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

*Sikich LLP*

Springfield, Illinois  
April 20, 2020

## **FINANCIAL STATEMENTS**

**BAPTIST FOUNDATION OF ILLINOIS**

**STATEMENTS OF FINANCIAL POSITION**

December 31, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 110,450	\$ 451,016
Accrued interest and other assets	107,316	79,911
Property and equipment, net	15,849	25,852
Loans receivable	9,149,527	8,741,420
Beneficial interest in split interest agreements	36,618	14,333
Investments held for endowment	3,073,468	3,059,584
	<u>12,493,228</u>	<u>12,372,116</u>
Assets held in trust and for others:		
Cash and cash equivalents	499,843	375,370
Accrued interest	256,183	268,708
Loans receivable	400,618	314,651
Reverted church assets	1,170,000	605,000
Investments	22,960,010	19,893,838
Beneficial interest in split interest agreements	89,652	34,307
Assets held in trust	5,104,100	5,117,908
	<u>30,480,406</u>	<u>26,609,782</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 42,973,634</u></u>	 <u><u>\$ 38,981,898</u></u>

This statement continued on the following page.

**BAPTIST FOUNDATION OF ILLINOIS**

STATEMENTS OF FINANCIAL POSITION (Continued)

December 31, 2018 and 2017

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**LIABILITIES AND NET ASSETS**

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 45,835	\$ 20,187
Bonds payable	8,994,678	8,940,495
	<u>9,040,513</u>	<u>8,960,682</u>
Funds held in trust and for others:		
Funds held as trustee under permanent endowments	5,935,277	4,887,630
Funds held under custodial fund agreements	19,441,029	16,604,244
Trust liabilities	5,104,100	5,117,908
	<u>30,480,406</u>	<u>26,609,782</u>
	<u>39,520,919</u>	<u>35,570,464</u>
<b>NET ASSETS</b>		
Without donor restrictions		
Board designated endowment	407,789	636,189
Donor advised funds	72,054	58,188
Undesignated	3,108	(122,730)
	<u>482,951</u>	<u>571,647</u>
With donor restrictions		
Purpose and time restrictions	983,671	853,694
Perpetual in nature	1,986,093	1,986,093
	<u>2,969,764</u>	<u>2,839,787</u>
Total net assets	<u>3,452,715</u>	<u>3,411,434</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 42,973,634</u>	<u>\$ 38,981,898</u>

See accompanying notes to financial statements.

# BAPTIST FOUNDATION OF ILLINOIS

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT, REVENUE AND RECLASSIFICATIONS</b>			
Investment income	\$ 62,845	\$ 229,094	\$ 291,939
Change in value of split interest agreements	-	22,285	22,285
Fees for asset management and administration	125,628	-	125,628
Illinois Baptist State Association support	72,000	-	72,000
Interest received on loans receivable	448,064	-	448,064
Net assets released from purpose restrictions	121,402	(121,402)	-
Total support, revenue and reclassifications	<u>829,939</u>	<u>129,977</u>	<u>959,916</u>
<b>EXPENSES</b>			
Program services:			
Estate planning, trust, investment and lending services for IBSA organizations	472,602	-	472,602
Distributions for scholarships and other charitable causes	303,246	-	303,246
	<u>775,848</u>	<u>-</u>	<u>775,848</u>
Supporting activities:			
Management and general Total expenses	142,787	-	142,787
	<u>918,635</u>	<u>-</u>	<u>918,635</u>
<b>CHANGE IN NET ASSETS</b>	(88,696)	129,977	41,281
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>571,647</u>	<u>2,839,787</u>	<u>3,411,434</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 482,951</u>	<u>\$ 2,969,764</u>	<u>\$ 3,452,715</u>

See accompanying notes to financial statements.



# BAPTIST FOUNDATION OF ILLINOIS

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT, REVENUE AND RECLASSIFICATIONS</b>			
Investment income	\$ 54,636	\$ 214,886	\$ 269,522
Contributions	36,653	4,779	41,432
Change in value of split interest agreements	-	448	448
Fees for asset management and administration	75,297	-	75,297
Illinois Baptist State Association support	31,839	-	31,839
Interest received on loans receivable	378,169	2,700	380,869
Net assets released from purpose restrictions	122,229	(122,229)	-
Total support, revenue and reclassifications	<u>698,823</u>	<u>100,584</u>	<u>799,407</u>
<b>EXPENSES</b>			
Program services:			
Estate planning, trust, investment and lending services for IBSA organizations	484,861	-	484,861
Distributions for scholarships and other charitable causes	200,104	-	200,104
	<u>684,965</u>	<u>-</u>	<u>684,965</u>
Supporting activities			
Management and general	155,939	-	155,939
Total expenses	<u>840,904</u>	<u>-</u>	<u>840,904</u>
<b>CHANGE IN NET ASSETS</b>	(142,081)	100,584	(41,497)
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>713,728</u>	<u>2,739,203</u>	<u>3,452,931</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 571,647</u>	<u>\$ 2,839,787</u>	<u>\$ 3,411,434</u>

See accompanying notes to financial statements.

**BAPTIST FOUNDATION OF ILLINOIS**

**STATEMENTS OF FUNCTIONAL EXPENSES**

For the Years Ended December 31, 2018 and 2017

	<b>Estate Planning, Trust, Investment and Lending Services</b>	<b>Scholarships and Charitable Giving</b>	<b>Total Program Services</b>	<b>Mnagement and General</b>	<b>2018 Total</b>	<b>2017 Total</b>
Salaries and benefits	\$ 108,412	\$ 12,046	\$ 120,458	\$ 98,557	\$ 219,015	\$ 205,722
Professional fees	9,124	1,014	10,138	8,294	18,432	31,790
Occupancy	14,710	1,635	16,345	13,373	29,718	25,146
Depreciation	4,952	550	5,502	4,501	10,003	10,003
Office expense	5,539	-	5,539	4,531	10,070	15,008
Insurance	593	-	593	485	1,078	9,121
Travel	6,734	-	6,734	5,510	12,244	8,954
Promotion	750	-	750	614	1,364	(1,595)
Technology	6,717	354	7,071	5,785	12,856	21,644
Board governance	1,389	-	1,389	1,137	2,526	2,002
Miscellaneous	-	-	-	-	-	558
Administrative expense	-	-	-	-	-	10,240
Bond interest expense	313,682	-	313,682	-	313,682	302,207
Distributions for scholarships and other charitable causes	-	287,647	287,647	-	287,647	200,104
<b>Total expenses</b>	<b>\$ 472,602</b>	<b>\$ 303,246</b>	<b>\$ 775,848</b>	<b>\$ 142,787</b>	<b>\$ 918,635</b>	<b>\$ 840,904</b>

See accompanying notes to financial statements.

**BAPTIST FOUNDATION OF ILLINOIS****STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 41,281	\$ (41,497)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	10,003	10,003
Realized and unrealized gain on investments	(163,540)	(152,636)
Reinvested interest on bonds payable	1,678	9,495
Change in value of split interest agreements	(22,285)	(448)
Contributions restricted for investment in endowment	-	(4,779)
Changes in:		
Accrued interest and other assets	(27,405)	(3,921)
Accounts payable and accrued expenses	25,648	13,630
Net cash from operating activities	<u>(134,620)</u>	<u>(170,153)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	115,488	143,125
Purchase of investments	34,168	(347,621)
Loan advances	(1,182,500)	(1,408,940)
Loan principal received	724,393	1,368,929
Net cash from investing activities	<u>(308,451)</u>	<u>(244,507)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of bonds	832,000	1,582,000
Redemption of bonds	(779,495)	(1,443,971)
Use of endowment funds for loan advances	50,000	30,000
Contributions restricted for investment in endowment	-	4,779
Net cash from financing activities	<u>102,505</u>	<u>172,808</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(340,566)	(241,852)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>451,016</u>	<u>692,868</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 110,450</u>	<u>\$ 451,016</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	<u>\$ 285,244</u>	<u>\$ 292,712</u>

See accompanying notes to financial statements.

# BAPTIST FOUNDATION OF ILLINOIS

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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### 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 investment 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. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

#### Use of 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 disclosures 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.

#### Cash and Cash Equivalents

Cash and cash equivalents include deposits in banks. The Foundation considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. CBL investment certificates placed with The Baptist Foundation of Oklahoma are held at cost plus accrued interest. Real estate is carried at the lower of cost or estimated fair market value. Spring Bancorp Subordinated Debentures are carried at fair value, which management believes approximates cost plus accrued interest. Certificates of deposit are carried at cost plus accrued interest.

Investment income and realized and unrealized gains and losses are included in investment income without donor restrictions unless a donor or law temporarily or permanently restricts their use. Investment return is reported net of external and direct internal investment expenses.

Property and Equipment

The Foundation capitalizes fixed assets with a cost basis in excess of \$2,500. The cost of the vehicle and equipment is depreciated over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The useful lives adopted for the purpose of computing depreciation are:

Vehicle	5 years
Equipment	5 years

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, 2018 and 2017, no provision for loan losses has been recorded.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loans Receivable (Continued)

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.

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Classes of Net Assets

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

*Without donor restrictions* are those currently available for Foundation purposes under the direction of the Board and those designated by the Board for specific use. The Board has designated, from net assets without donor restrictions, a board-designated endowment.

*With donor restrictions* are those subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as 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. Other donor-imposed restrictions are perpetual in nature, such as 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 include management fees 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. No amount was recorded for the years ended December 31, 2018 and 2017.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Expenses and Distributions

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 statements of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Bond interest expense and distributions for scholarships and other charitable purposes are directly allocated to program services. All other expenses of the Foundation are allocated based on estimates of time and effort.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (d) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (e) presenting investment return net of external and direct internal investment expenses, and (f) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Foundation has adopted this ASU as of and for the year ended December 31, 2018 with retrospective application for the 2017 financial statements, except for the analysis of expenses by nature and function and disclosure of liquidity and availability information. These disclosures have been presented for 2018 only, as allowed by ASU No. 2016-14.

Future Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, as amended by ASU No. 2015-14, which supersedes or replaces nearly all US GAAP revenue recognition guidance. This standard establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. ASU No. 2014-09, as amended, is effective for non-public companies for annual reporting periods beginning after December 15, 2018 and interim periods within the annual period beginning after December 15, 2019. The Foundation is currently assessing the impact of this new standard.



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Future Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. ASU No. 2016-02, as amended by ASU No. 2019-10, is effective for nonpublic entities for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021. ASU No. 2016-02 originally specified a modified retrospective transition method which requires the entity to initially apply the new leases standards at the beginning of the earliest period presented in the financial statements. In July 2018, FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, providing a second, optional transition method which allows the entity to apply the new standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. The Foundation is currently assessing the impact of this new standard, including the two optional transition methods.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to help distinguish if grants and contracts with resource providers are exchange transactions or contributions. It also provides guidance to help determine when a contribution is conditional and evaluating if the possibility that a condition will not be met is remote. ASU No. 2018-08 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently assessing the impact of this new standard.

**3. INVESTMENTS**

At December 31, 2018 and 2017, investments consist of the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
At fair value:		
LPL Financial:		
Corporate bonds	\$ 577,389	\$ 775,642
Municipal bonds	18,522,609	15,481,851
Common stock	221,178	402,089
Exchange traded funds	63,763	-
Limited partnership interest	217,678	-
Spring Bancorp Subordinated Debenture	<u>1,250,000</u>	<u>1,250,000</u>
	20,852,617	17,909,582

**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**3. INVESTMENTS (Continued)**

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
At net asset value:		
Southern Baptist Foundation:		
Balanced fund	\$ 26,810	\$ 29,357
Flexible income fund	118,789	119,702
Income fund	143,866	266,085
Short term fund money market	569	395
Equity fund	51,427	63,933
At cost:		
Cash held at LPL Financial	301,367	419,767
Real estate	1,053,604	1,107,717
The Baptist Foundation of Oklahoma:		
CBL investment certificates	2,573,581	2,233,969
Money market funds	<u>910,848</u>	<u>802,915</u>
	26,033,478	22,953,422
Less:		
Investments held for endowment	<u>(3,073,468)</u>	<u>(3,059,584)</u>
	<u>\$ 22,960,010</u>	<u>\$ 19,893,838</u>

**4. LOANS RECEIVABLE**

At December 31, 2018, the Foundation had 56 loans with interest rates ranging from 4.25% - 5.35% and balances as follows:

<u>Loan Balance</u>	<u>Number of Loans</u>	<u>Principal Outstanding</u>	<u>Percent of Loan Portfolio</u>
\$0-\$100,000	20	\$ 1,057,873	11%
\$100,001 - \$300,000	27	4,601,470	48%
Over \$300,000	<u>9</u>	<u>3,890,802</u>	<u>41%</u>
		9,550,145	
Less:			
Loans included in assets held in trust and for others		<u>(400,618)</u>	
	<u>56</u>	<u>\$ 9,149,527</u>	<u>100%</u>

**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**4. LOANS RECEIVABLE (Continued)**

At December 31, 2017, the Foundation had 51 loans with interest rates ranging from 4.25% - 5.35% and balances as follows:

Loan Balance	<u>Number of Loans</u>	<u>Principal Outstanding</u>	<u>Percent of Loan Portfolio</u>
\$0-\$100,000	19	\$ 976,641	11%
\$100,001 - \$300,000	23	3,991,148	44%
Over \$300,000	<u>9</u>	<u>4,088,282</u>	<u>45%</u>
		9,056,071	
Less:			
Loans included in assets held in trust and for others		<u>(314,651)</u>	
	<u>51</u>	<u>\$ 8,741,420</u>	<u>100%</u>

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, 2018 and 2017, 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:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Performing	\$ 9,550,145	\$ 9,056,071
Nonperforming	<u>-</u>	<u>-</u>
	<u>\$ 9,550,145</u>	<u>\$ 9,056,071</u>

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, 2018 and 2017.

**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**4. LOANS RECEIVABLE (Continued)**

Loans receivable at December 31, 2018, will mature as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 874,510
2020	501,885
2021	460,469
2022	475,920
2023	496,417
Thereafter	<u>6,740,944</u>
	<u>\$ 9,550,145</u>

**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 statements 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:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
At fair value:		
LPL Financial:		
Municipal bonds	\$ 1,902,835	\$ 1,410,279
Preferred stock	189,813	237,464
Exchange traded funds	525,563	56,103
Common stock	625,547	1,154,833
Limited partnership interest	22,165	-
Spring Bancorp Subordinated Debenture	<u>500,000</u>	<u>500,000</u>
	3,765,923	3,358,679
At net asset value:		
Real estate investment trust	303,092	300,799
Southern Baptist Foundation:		
Balanced fund	80,107	84,727

**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**5. ASSETS HELD IN TRUST (Continued)**

At cost:

Cash held at LPL Financial	\$ 62,956	\$ 480,547
Accrued interest	21,022	22,156
Real estate	<u>871,000</u>	<u>871,000</u>
	<u>\$ 5,104,100</u>	<u>\$ 5,117,908</u>

**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 and as such the activity is reported directly to assets and liability and is not reflected in the statement of activities. The following is a summary of activity for these agreements:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 4,887,630	\$ 4,264,941
Investment return:		
Investment income	166,410	210,208
Investment management and custodial fees	<u>(8,825)</u>	<u>(22,402)</u>
	157,585	187,806
Change in value of split interest agreements	55,345	3,852
Amounts appropriated for expenditure	(104,339)	(160,865)
Contributions	<u>939,056</u>	<u>591,896</u>
	1,047,647	622,689
Balance, end of year	<u>\$ 5,935,277</u>	<u>\$ 4,887,630</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 and as such the activity is reported directly to assets and liability and is not reflected in the statement of activities. The following is a summary of activity for these agreements:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 16,604,244	\$ 14,118,400
Investment return:		
Investment income	543,587	1,292,126
Investment management and custodial fees	<u>(38,467)</u>	<u>(87,625)</u>
	505,120	1,204,501
Withdrawals	(1,206,471)	(4,817,246)
Deposits	<u>3,538,136</u>	<u>6,098,589</u>
	2,337,423	2,485,844
Balance, end of year	<u>\$ 19,441,029</u>	<u>\$ 16,604,244</u>

**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**8. BONDS PAYABLE**

Following is a summary of bonds payable as of December 31, 2018:

Description	Interest Rate	Maturity	Issued	Balance
BFI Bond Issue 2013A	3.00%	5/8/33	\$ 309,000	\$ 271,000
BFI Bond Issue 2013D	3.00%	6/21/33	254,000	231,000
BFI Bond Issue 2013E	3.00%	8/21/33	541,000	490,000
BFI Bond Issue 2013F	3.00%	9/12/33	126,000	60,000
BFI Bond Issue 2013H	3.00%	9/25/33	718,000	608,000
BFI Bond Issue 2013I	3.00%	9/23/33	21,000	12,000
BFI Bond Issue 2013J	3.00%	9/24/33	25,000	-
BFI Bond Issue 2013K	3.00%	12/19/33	228,000	203,000
BFI Bond Issue 2013L	3.00%	12/20/33	226,000	204,000
BFI Bond Issue 2013M	3.00%	1/15/34	146,000	126,000
BFI Bond Issue 2013N	3.00%	2/4/34	150,000	112,000
BFI Bond Issue 2014B	3.00%	3/19/34	318,000	276,000
BFI Bond Issue 2014D	3.75%	3/19/34	78,000	68,000
BFI Bond Issue 2014E	3.25%	5/5/34	120,000	101,000
BFI Bond Issue 2014F	3.25%	9/4/34	439,000	392,000
BFI Bond Issue 2014G	3.25%	9/4/34	104,000	93,000
BFI Bond Issue 2014H	3.25%	12/15/34	322,000	263,000
BFI Bond Issue 2014I	3.25%	2/23/35	149,000	117,000
BFI Bond Issue 2015B	1.25%-4.25%	6/1/19-6/1/22	39,000	39,000
BFI Bond Issue 2015C	1.25%-4.25%	6/30/19-8/28/23	484,000	484,000
BFI Bond Issue 2015D	3.00%-4.25%	9/30/19-9/30/21	288,000	288,000
BFI Bond Issue 2015F	3.60%-4.25%	12/1/19-12/1/22	200,000	200,000
BFI Bond Issue 2015G	3.00%-4.25%	11/30/19-11/30/23	266,000	265,000
BFI Bond Issue 2015H	4.25%	12/1/19-12/1/20	32,000	2,000
BFI Bond Issue 2015I	3.00%-4.25%	1/15/19-1/15/23	345,000	340,000
BFI Bond Issue 2015J	3.60%-4.25%	12/31/19-12/31/20	75,000	75,000
BFI Bond Issue 2015K	4.25%	1/15/20	100,000	100,000
BFI Bond Issue 2015L	2.25%-4.25%	1/15/19-1/15/23	105,000	105,000
BFI Bond Issue 2016A	3.60%-4.25%	2/1/20-7/18/22	476,000	445,000
BFI Bond Issue 2016B	1.25%-4.25%	2/12/19-7/28/22	200,000	200,000
BFI Bond Issue 2016F	3.00%-4.25%	7/7/19-8/23/23	548,000	546,000
BFI Bond Issue 2016G	3.00%-4.25%	3/31/21	100,000	100,000
BFI Bond Issue 2016H	1.25%-4.25%	5/31/19-5/31/21	120,000	120,000
BFI Bond Issue 2016I	4.25%	1/25/22	63,000	-
BFI Bond Issue 2017A	2.25%-4.25%	2/28/19-2/28/22	145,000	145,000
BFI Bond Issue 2017B	2.25%-4.25%	4/11/19-4/11/22	125,000	125,000
BFI Bond Issue 2017D	4.25%	6/15/22	145,000	145,000
BFI Bond Issue 2017E	2.25%-4.25%	6/15/19-6/15/22	125,000	125,000
BFI Bond Issue 2017F	2.25%-4.25%	3/30/19-3/30/22	50,000	50,000
BFI Bond Issue 2017G	1.25%-4.25%	8/29/19-8/29/22	482,000	452,000

**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**8. BONDS PAYABLE (Continued)**

Description	Interest Rate	Maturity	Issued	Balance
BFI Bond Issue 2017H	3.00%-4.25%	7/5/20-7/5/22	\$ 100,000	\$ 100,000
BFI Bond Issue 2017I	2.25%	10/2/19	107,000	107,000
BFI Bond Issue 2017K	2.25%-4.25%	2/7/20-2/7/23	104,000	104,000
BFI Bond Issue 2018A	1.60%-4.25%	4/19/21-4/16/23	75,000	75,000
BFI Bond Issue 2018B	1.25%-4.25%	5/4/19-5/4/23	289,000	289,000
BFI Bond Issue 2018C	2.25%-4.25%	5/23/20-5/23/23	270,000	270,000
BFI Bond Issue 2018D	4.25%	6/4/23	<u>70,000</u>	<u>70,000</u>
			<u>\$ 9,802,000</u>	8,993,000
Reinvested interest on bonds payable				<u>1,678</u>
				<u>\$ 8,994,678</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.

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, 2016, 2017, and 2018 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.

**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**8. BONDS PAYABLE (Continued)**

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 scheduled to mature as of December 31, 2018:

<u>Year</u>	<u>Amount</u>
2019	\$ 963,000
2020	777,000
2021	1,855,499
2022	1,123,000
2023	648,000
Thereafter	<u>3,628,179</u>
	<u>\$ 8,994,678</u>

**9. NET ASSETS WITH DONOR RESTRICTIONS**

The Foundation has net assets with donor restrictions as follows:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Beneficial interest in split interest agreements	\$ 36,618	\$ 14,333
Unexpended endowment income	947,053	839,361
Endowment funds	<u>1,986,093</u>	<u>1,986,093</u>
	<u>\$ 2,969,764</u>	<u>\$ 2,839,787</u>

**10. ENDOWMENT FUNDS**

The Foundation's endowment consists of approximately 35 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.



**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**10. ENDOWMENT FUNDS (Continued)**

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 net assets with donor restrictions (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. Donor restricted amounts not retained in perpetuity are subject to appropriation by the Foundation 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

Endowment net asset composition by type of fund as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ 2,933,146	\$ 2,933,146
Board designated funds	<u>407,789</u>	<u>-</u>	<u>407,789</u>
 Total funds	 <u>\$ 407,789</u>	 <u>\$ 2,933,146</u>	 <u>\$ 3,340,935</u>

Changes in endowment net assets for the year ended December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets beginning of year	<u>\$ 636,189</u>	<u>\$ 2,825,454</u>	<u>\$ 3,461,643</u>
Investment return:			
Investment income	67,056	254,232	321,288
Investment management and custodial fees	<u>(4,211)</u>	<u>(25,138)</u>	<u>(29,349)</u>
Total investment return	62,845	229,094	291,939

**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**10. ENDOWMENT FUNDS (Continued)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Amounts appropriated for expenditure	\$ (291,245)	\$ (121,402)	\$ (287,647)
	<u>(228,400)</u>	<u>107,692</u>	<u>(120,708)</u>
Endowment net assets, end of year	<u>\$ 407,789</u>	<u>\$ 2,933,146</u>	<u>\$ 3,340,935</u>

Endowment net asset composition by type of fund as of December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ 2,825,454	\$ 2,825,454
Board designated funds	<u>636,189</u>	<u>-</u>	<u>636,189</u>
Total funds	<u>\$ 636,189</u>	<u>\$ 2,825,454</u>	<u>\$ 3,461,643</u>

Changes in endowment net assets for the year ended December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets beginning of year	\$ 610,796	\$ 2,612,941	\$ 3,223,737
Investment return:			
Investment income	49,285	239,270	288,555
Investment management and custodial fees	<u>(3,086)</u>	<u>(21,684)</u>	<u>(24,770)</u>
Total investment return	46,199	217,586	263,785
Contributions	90	4,779	4,869
Amounts appropriated for expenditure	(20,896)	(122,229)	(143,125)
Fulfillment of pledge receivable	<u>-</u>	<u>112,377</u>	<u>112,377</u>
	<u>25,393</u>	<u>212,513</u>	<u>237,906</u>
Endowment net assets, end of year	<u>\$ 636,189</u>	<u>\$ 2,825,454</u>	<u>\$ 3,461,643</u>

**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**10. ENDOWMENT FUNDS (Continued)**

Description of amounts classified as net assets with donor restrictions and net assets without donor restrictions (endowment only) are as follows:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Net assets with donor restrictions:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or by UPMIFA.	\$ 1,986,093	\$ 1,986,093
The portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	947,053	839,361
Net assets without donor restrictions:		
Board designated endowments	<u>407,789</u>	<u>636,189</u>
	<u>\$ 3,340,935</u>	<u>\$ 3,461,643</u>

Endowment assets consist of the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Due from operations	\$ -	\$ 96,881
Investments	3,073,468	3,059,584
Interest receivable	52,585	38,957
Loans receivable	<u>214,882</u>	<u>266,221</u>
	<u>\$ 3,340,935</u>	<u>\$ 3,461,643</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. Such endowments are often referred to as “underwater” endowments. In accordance with GAAP, there were no deficiencies of this nature as of December 31, 2018 and 2017.

*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.

**10. ENDOWMENT FUNDS (Continued)**

*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.

*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 were approximately \$17,000 and \$14,000 in the years ended December 31, 2018 and 2017, respectively.

**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, 2018 and 2017, the Foundation had cash on deposit with financial institutions that exceed federally insured limits by approximately \$473,000 and \$1,368,000, respectively. The Foundation has not experienced any losses on these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents. At December 31, 2018 and 2017, approximately \$23.5 million and \$20.7 million, respectively, 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.

**12. CONCENTRATION OF CREDIT RISK**

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.

Bonds issued from the year 2015 to current year issuance are issued in \$1,000 units with maturity dates of one- year to five-years; however, the loans that the bonds are issued to fund have an average maturity of 20 years. A substantial portion of the bonds issued by the Foundation will mature within the next one to five years and the Foundation would have insufficient liquid assets to satisfy repayment of this amount. Management anticipates that a substantial portion of these bonds will be reinvested or rolled over into new bonds with the Foundation.

**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, 2018, the Foundation had outstanding commitments of approximately \$46,000 to fund 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.

**14. RELATED PARTY TRANSACTIONS**

The Board of Trustees of 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

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
IBSA:		
Assets held as trustee under permanent endowments	\$ 1,603,193	\$ 2,154,302
Assets held under custodial fund agreements	<u>5,873,659</u>	<u>6,003,440</u>
	<u>7,476,852</u>	<u>8,157,742</u>

**BAPTIST FOUNDATION OF ILLINOIS**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**14. RELATED PARTY TRANSACTIONS (Continued)**

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
BCHFS:		
Assets held as trustee under permanent endowments	\$ 308,724	\$ 849,614
Assets held under custodial fund agreements	<u>1,259,242</u>	<u>1,340,664</u>
	<u>1,567,966</u>	<u>2,190,278</u>
	<u>\$ 9,044,818</u>	<u>\$ 10,348,020</u>

The Foundation received a cash contribution of \$72,000 and \$31,839 from IBSA during the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the Foundation had \$16,766 and \$18,687, respectively, 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.

**15. FAIR VALUE MEASUREMENTS**

US GAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. US GAAP requires the Foundation to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Significant unobservable inputs.

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

## **15. FAIR VALUE MEASUREMENTS (Continued)**

If an investment that is measured using net asset value (NAV) has a readily determinable fair value (that is, it can be traded at the measurement date at its published NAV), it is included in Level 1 of the hierarchy. Otherwise, investments measured using NAV's are not included in Level 1, 2, or 3, but are separately reported.

### Valuation Techniques

Following is a description of the valuation techniques used for assets measured at fair value on a recurring basis. There have been no changes to the techniques used during the years ended December 31, 2018 and 2017.

*Money market funds, common stock, mutual funds and exchange traded funds:* The fair values are based on quoted market prices.

*Limited partnerships* – Valued at the closing price reported in the active market in which the partnerships are traded.

*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.

*Beneficial interest in split interest agreements:* Valued using the fair value of the assets held in the trust reported by the trustee as of December 31, 2018 and 2017. The Foundation considers the measurement of its beneficial interest in split interest agreements to be a Level 2 measurement within the hierarchy because the measurement is based on the unadjusted fair value of trust assets reported by the trustee and the Foundation will receive those assets in a future period.

*Spring Bancorp Subordinated Debentures:* The debentures are not transferable and not marketable. Therefore, management has used cost plus accrued interest as a reasonable approximation of fair value.

*Real estate investment trust:* Real estate investment trust (REIT) valuation is determined by the Board of Directors of Carter Validus Mission Critical REIT II, Inc. (CVMC REIT), and is based on the estimated value of CVMC REIT's assets less the estimated value of CVMC REIT's liabilities, divided by the approximate number of shares outstanding on a fully diluted basis.

*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 (Continued)**

**15. FAIR VALUE MEASUREMENTS (Continued)**

Valuation Techniques (Continued)

*Split interest agreements obligations:* Valued based on the present value of discounted expected cash flows and life expectancies. The present value was calculated using a discount rate of 2.82%. These are categorized as Level 2.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective future fair values. Furthermore, although the Foundation 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 table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>ASSETS</b>				
Investments:				
Corporate bonds	\$ -	\$ 577,389	\$ -	\$ 577,389
Municipal bonds	-	18,522,609	-	18,522,609
Common stock	221,178	-	-	221,178
Exchange traded funds	63,763	-	-	63,763
Limited partnership interest	217,678	-	-	217,678
Beneficial interest in split Interest agreements	-	126,270	-	126,270
Spring Bancorp Subordinated Debenture	-	-	1,250,000	1,250,000
	<u>502,619</u>	<u>19,226,268</u>	<u>1,250,000</u>	<u>20,978,887</u>
Trust assets:				
Municipal bonds	-	1,902,835	-	1,902,835
Common stock	815,360	-	-	815,360
Exchange traded funds	525,563	-	-	525,563
Limited partnership interest	22,165	-	-	22,165
Spring Bancorp Subordinated Debenture	-	-	500,000	500,000
	<u>1,363,088</u>	<u>1,902,835</u>	<u>500,000</u>	<u>3,765,923</u>
Total investments at fair value	<u>\$ 1,865,707</u>	<u>\$ 21,002,833</u>	<u>\$ 1,750,000</u>	<u>\$ 24,744,810</u>
<b>LIABILITIES</b>				
Split interest agreements obligations	<u>\$ -</u>	<u>\$ 126,270</u>	<u>\$ -</u>	<u>\$ 126,270</u>



**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**15. FAIR VALUE MEASUREMENTS (Continued)**

Investments at fair value (from table above):	\$ 24,744,810
Investments at cost:	
Cash held at LPL Financial	364,323
Real estate	1,924,604
The Baptist Foundation of Oklahoma	
CBL investment certificates	2,573,581
Money market funds	910,848
Accrued interest	21,022
Investments at net asset value:	
Southern Baptist Foundation pooled funds	421,568
Real estate investment trust	<u>303,092</u>
Total investments, beneficial interest in split interest agreements and assets held in trust	<u>\$ 31,263,848</u>

The table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Corporate bonds	\$ -	\$ 775,642	\$ -	\$ 775,642
Municipal bonds	-	15,481,851	-	15,481,851
Common stock	402,089	-	-	402,089
Beneficial interest in split				
Interest agreements	-	48,640	-	48,640
Spring Bancorp				
Subordinated Debenture	<u>-</u>	<u>-</u>	<u>1,250,000</u>	<u>1,250,000</u>
	<u>402,089</u>	<u>16,306,133</u>	<u>1,250,000</u>	<u>17,958,222</u>
Trust assets:				
Municipal bonds	-	1,410,279	-	1,410,279
Preferred stock	237,464	-	-	237,464
Exchange traded funds	56,103	-	-	56,103
Common stock	1,154,833	-	-	1,154,833
Spring Bancorp				
Subordinated Debenture	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>500,000</u>
	<u>1,448,400</u>	<u>1,410,279</u>	<u>500,000</u>	<u>3,358,679</u>
Total investments at				
Fair value	<u>\$ 1,850,489</u>	<u>\$ 17,667,772</u>	<u>\$ 1,750,000</u>	<u>\$ 21,316,901</u>
LIABILITIES				
Split interest agreements				
obligations	<u>\$ -</u>	<u>\$ 48,640</u>	<u>\$ -</u>	<u>\$ 48,640</u>

**BAPTIST FOUNDATION OF ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**15. FAIR VALUE MEASUREMENTS (Continued)**

Investments at fair value (from table above):	\$ 21,316,901
Investments at cost:	
Cash held at LPL Financial	900,314
Real estate	1,978,717
The Baptist Foundation of Oklahoma	
CBL investment certificates	2,233,969
Money market funds	802,915
Accrued interest	22,156
Investments at net asset value:	
Southern Baptist Foundation pooled funds	564,199
Real estate investment trust	<u>300,799</u>
Total investments, beneficial interest in split interest agreements and assets held in trust	<u>\$ 28,119,970</u>

Total investments were presented on the statements of financial position as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investments held for endowment	\$ 3,073,468	\$ 3,059,584
Beneficial interest in split interest agreements	36,618	14,333
Assets held in trust and for others:		
Investments	22,960,010	19,893,838
Beneficial interest in split interest agreements	89,652	34,307
Assets held in trust	<u>5,104,100</u>	<u>5,117,908</u>
Total Investments	<u>\$ 31,263,848</u>	<u>\$ 28,119,970</u>

The following table provides further details for the Level 3 fair value measurements at December 31, 2018 and 2017:

Balance as of January 1, 2018	\$ 1,750,000
Purchases	<u>-</u>
Balance as of December 31, 2018	<u>\$ 1,750,000</u>
Balance as of January 1, 2017	\$ -
Purchases	<u>1,750,000</u>
Balance as of December 31, 2017	<u>\$ 1,750,000</u>

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.

**BAPTIST FOUNDATION OF ILLINOIS**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**15. FAIR VALUE MEASUREMENTS (Continued)**

The Foundation's investment in SBF Pooled fund investments 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 \$421,568 and \$564,199 as of December 31, 2018 and 2017, respectively.

The Foundation's investment in CVMC REIT consists of funds that calculate NAV per share based on management estimates. These funds are illiquid. There are no unfunded commitments in place at year end. The Foundation's investment in these funds was \$303,092 and \$300,799 as of December 31, 2018 and 2017, respectively.

**16. LIQUIDITY AND AVAILABILITY**

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, comprise the following as of December 31, 2018:

Cash and cash equivalents	\$ 110,450
Accrued interest and other assets	107,316
Loans receivable – current portion	874,510
Investments held for endowment	<u>3,073,468</u>
Total financial assets and liquidity resources available within one year	4,165,744
Board designated net assets	\$ (407,789)
Net assets with donor restrictions	<u>(2,969,764)</u>
Financial assets available to meet cash needs for general use within one year	 <u>\$ 788,191</u>

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments.

Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. The Foundation's board designated endowment of \$532,789 is subject to the annual spending rate of 3.2% as described in Note 10. Although the Foundation does not intend to spend from the board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

**16. LIQUIDITY AND AVAILABILITY (Continued)**

The Foundation's reserve policy strives for a target level of twelve months of operating expenses available for the subsequent fiscal year. The reserve target is established during the Foundation's annual budgeting process.

**17. SUBSEQUENT EVENTS**

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

The Foundation has evaluated subsequent events through April 20, 2020, which was the date that these financial statements were available for issuance.