

# **The Baptist Foundation of Oklahoma**

Consolidated Financial Statements and Report of Independent Certified Public Accountants  
December 31, 2017 and 2016

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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**Board of Directors  
The Baptist Foundation of Oklahoma**

We have audited the accompanying consolidated financial statements of The Baptist Foundation of Oklahoma (an Oklahoma not-for-profit organization and subsidiary), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Baptist Foundation of Oklahoma and subsidiary as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 51 to 56 is presented for purposes of additional analysis and is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Grant Thornton LLP*

Oklahoma City, Oklahoma

April 26, 2018

# The Baptist Foundation of Oklahoma

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 19,891,594	\$ 14,562,204
Certificates of deposit	4,374,487	502,357
Prepaid expenses and other	180,486	150,855
Investments		
Pooled investments - at market		
Domestic equities	61,252,387	39,282,354
International equities	64,108,004	41,567,678
Fixed income	107,677,414	97,399,362
Alternative investments	<u>147,915,896</u>	<u>162,693,002</u>
	<u>380,953,701</u>	<u>340,942,396</u>
Other investments		
At market		
Corporate stocks and mutual funds	6,739,364	6,056,224
Mineral interests	27,569,573	19,244,911
Limited Partnerships	3,774,350	3,498,850
At contributed value or cost		
Notes receivable from Convention	2,491,994	-
Notes receivable held in trust accounts	139,154	228,597
Real estate	1,401,412	1,158,639
Life and annuity contracts and other	<u>177,156</u>	<u>169,962</u>
	<u>42,293,003</u>	<u>30,357,183</u>
Total investments	423,246,704	371,299,579
Property and equipment, net	<u>852,799</u>	<u>1,255,938</u>
	<u>\$ 448,546,070</u>	<u>\$ 387,770,933</u>

The accompanying notes are an integral part of these statements.

# The Baptist Foundation of Oklahoma

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

LIABILITIES AND NET ASSETS	<u>2017</u>	<u>2016</u>
Liabilities		
Accounts payable and accrued expenses	\$ 454,456	\$ 526,353
Accrued postretirement benefits	404,797	411,516
Liabilities for participation agreements	4,441,758	3,566,793
Notes payable	2,491,994	-
Liabilities to beneficial owners		
Liability to income beneficiaries under split-interest agreements		
Gift annuity contracts	2,677,586	2,827,292
Irrevocable trust agreements	<u>2,264,935</u>	<u>2,509,574</u>
	<u>4,942,521</u>	<u>5,336,866</u>
Assets held for others		
Assets held as trustee under permanent endowments	196,938,653	167,401,735
Assets held under agreements with affiliated entities to administer endowments or other trust funds	63,905,076	57,339,782
Remainder interests under gift annuity contracts and irrevocable trust agreements	<u>22,739,620</u>	<u>19,261,043</u>
	<u>283,583,349</u>	<u>244,002,560</u>
Refundable advances		
Assets held under custodial arrangements with affiliated entities	123,424,087	106,585,900
Conditional transfers from donors	<u>3,579,913</u>	<u>6,531,881</u>
	<u>127,004,000</u>	<u>113,117,781</u>
Total liabilities to beneficial owners	<b>415,529,870</b>	362,457,207
Commitments and contingencies (NOTE Q)		
Net assets		
Unrestricted:		
Undesignated	1,721,789	6,547,184
Board designated	5,783,970	-
Temporarily restricted	6,501,022	3,060,649
Permanently restricted	<u>11,216,414</u>	<u>11,201,231</u>
	<u>25,223,195</u>	<u>20,809,064</u>
	<u>\$ 448,546,070</u>	<u>\$ 387,770,933</u>

The accompanying notes are an integral part of these statements.

# The Baptist Foundation of Oklahoma

## CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Fees for asset management and trust administration	\$ 4,274,725	\$ -	\$ -	\$ 4,274,725
Investment return				
Interest and dividends from investment pools	3,700,066	172,079	-	3,872,145
Interest, dividends and other investment earnings	10,011	600,173	-	610,184
Net realized and unrealized gains (losses) on investments	705,279	3,358,345	-	4,063,624
Other support and revenue				
Cooperative program allocation	25,000	-	-	25,000
Contributions	40,412	865	10,053	51,330
Other	56,470	12,384	-	68,854
Reclassification of net assets				
Reclassification for income preservation	-	(5,130)	5,130	-
Reclassification for accounts with total net asset balances less than the original gift	8,404	(8,404)	-	-
Net assets released from restriction	<u>689,939</u>	<u>(689,939)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>9,510,306</u>	<u>3,440,373</u>	<u>15,183</u>	<u>12,965,862</u>
Expenses and distributions				
Program services				
Estate planning, trust, investment and lending services for Southern Baptist organizations	5,674,264	-	-	5,674,264
Distributions to students, elderly and charitable causes	455,333	-	-	455,333
Management and general	<u>2,429,858</u>	<u>-</u>	<u>-</u>	<u>2,429,858</u>
Total expenses	<u>8,559,455</u>	<u>-</u>	<u>-</u>	<u>8,559,455</u>
Pension related changes other than net periodic pension costs				
	<u>7,724</u>	<u>-</u>	<u>-</u>	<u>7,724</u>
CHANGE IN NET ASSETS	958,575	3,440,373	15,183	4,414,131
Net assets at beginning of year	<u>6,547,184</u>	<u>3,060,649</u>	<u>11,201,231</u>	<u>20,809,064</u>
Net assets at end of year	<u>\$ 7,505,759</u>	<u>\$ 6,501,022</u>	<u>\$ 11,216,414</u>	<u>\$ 25,223,195</u>

The accompanying notes are an integral part of these statements.

# The Baptist Foundation of Oklahoma

## CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Fees for asset management and trust administration	\$ 3,973,394	\$ -	\$ -	\$ 3,973,394
Investment return				
Interest and dividends from investment pools	1,647,578	175,978	-	1,823,556
Interest, dividends and other investment earnings	6,003	160,016	-	166,019
Net realized and unrealized gains (losses) on investments	150,441	488,786	-	639,227
Other support and revenue				
Cooperative program allocation	24,634	-	-	24,634
Contributions	94,133	930	193,060	288,123
Other	18,051	662	-	18,713
Reclassification of net assets				
Reclassification for income preservation	-	(2,653)	2,653	-
Reclassification for accounts with total net asset balances less than the original gift	(1,402)	1,402	-	-
Net assets released from restriction	<u>767,787</u>	<u>(767,787)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>6,680,619</u>	<u>57,334</u>	<u>195,713</u>	<u>6,933,666</u>
Expenses and distributions				
Program services				
Estate planning, trust, investment and lending services for Southern Baptist organizations	3,780,256	-	-	3,780,256
Distributions to students, elderly and charitable causes	460,478	-	-	460,478
Management and general	<u>2,099,668</u>	<u>-</u>	<u>-</u>	<u>2,099,668</u>
Total expenses	6,340,402	-	-	6,340,402
Pension related changes other than net periodic pension costs	<u>35,444</u>	<u>-</u>	<u>-</u>	<u>35,444</u>
CHANGE IN NET ASSETS	375,661	57,334	195,713	628,708
Net assets at beginning of year	<u>6,171,523</u>	<u>3,003,315</u>	<u>11,005,518</u>	<u>20,180,356</u>
Net assets at end of year	<u>\$ 6,547,184</u>	<u>\$ 3,060,649</u>	<u>\$ 11,201,231</u>	<u>\$ 20,809,064</u>

The accompanying notes are an integral part of these statements.

# The Baptist Foundation of Oklahoma

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2017	2016
Cash flows from operating activities		
Cash received as fees for asset management and trust administration	\$ 4,274,725	\$ 3,973,394
Interest, dividends and other investment income received	4,482,329	1,989,575
Cash received from donors and under Cooperative Program	61,147	117,044
Cash paid to employees, suppliers and to benefit recipients	(6,048,854)	(5,230,366)
Cash paid for interest	(2,345,032)	(787,891)
Cash received from other sources	68,854	18,713
Cash flows related to assets held for beneficial owners		
Cash received from or on behalf of beneficial owners	65,746,285	37,823,473
Earnings on assets held for beneficial owners	12,498,447	10,002,974
Distributions to or on behalf of beneficial owners	(66,631,892)	(47,004,118)
	11,612,840	822,329
Net cash provided by (used in) operating activities	12,106,009	902,798
Cash flows from investing activities		
Purchases of certificates of deposit	(5,500,000)	(500,014)
Sales of certificates of deposit	1,850,180	1,002,659
Purchases of units in investment pools	(42,818,651)	(63,270,077)
Sales of units in investment pools	38,131,445	64,321,743
Advances on notes receivable	(17,531)	(71,508)
Collections on notes receivable	106,974	37,263
Purchases of other investments	(3,740,640)	(2,489,236)
Sales of other investments	4,184,409	2,986,393
Purchases of property and equipment	(339,930)	(501,304)
Sales of property and equipment	476,977	112,250
Net cash provided by (used in) investing activities	(7,666,767)	1,628,169
Cash flows from financing activities		
Proceeds from sale of participation agreements	1,451,000	1,617,011
Payments to participation agreement owners	(576,035)	(837,784)
Advances on notes receivable from Convention	(2,500,000)	-
Collections on notes receivable from Convention	8,006	-
Proceeds from notes payable	2,500,000	-
Payments on notes payable	(8,006)	-
Proceeds from contributions restricted for investment in endowments	15,183	195,713
Net cash provided by (used in) financing activities	890,148	974,940
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,329,390	3,505,907
Cash and cash equivalents at beginning of year	14,562,204	11,056,297
Cash and cash equivalents at end of year	\$ 19,891,594	\$ 14,562,204
Reconciliation of change in net assets to net cash provided by (used in) operating activities		
Change in net assets	\$ 4,414,131	\$ 628,708
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Net realized and unrealized (gains) losses on investments	(4,063,624)	(639,227)
(Gain) loss on sale of property and equipment	(4,977)	15,320
Depreciation	271,069	220,808
(Increase) decrease in prepaid expenses and other	(29,631)	(25,700)
Increase (decrease) in accounts payable and accrued expenses	(71,897)	136,512
Increase (decrease) in accrued postretirement benefits	(6,719)	(60,239)
Cash increase (decrease) related to beneficial owners	11,612,840	822,329
Contributions and other earnings restricted for long-term investment	(15,183)	(195,713)
Net cash provided by (used in) operating activities	\$ 12,106,009	\$ 902,798

Non-cash activities:

Liabilities to beneficial owners include net realized and unrealized gains (losses) of \$40,117,510 and \$7,431,999 for 2017 and 2016, non-cash receipts of other investments of \$1,320,042 and \$5,018,671 for 2017 and 2016, and non-cash disposals of other investments of \$35 and \$401,604 for 2017 and 2016.

The accompanying notes are an integral part of these statements.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### **NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES**

The Baptist Foundation of Oklahoma (Foundation) is a private, nonprofit religious association chartered by the State of Oklahoma on October 31, 1946 for perpetual existence without capital stock. Its creation was approved by the Baptist General Convention of the State of Oklahoma (Convention) to administer funds and property received by gift, device, and bequest or otherwise in order to assist and promulgate the furtherance of the Convention and to promote Baptist doctrines, evangelism, Christian education and both home and foreign mission work. The Foundation qualifies as 501(c)(3) public charity.

The Foundation formed 25:21, LLC (LLC) on November 15, 2016 with the purpose of allowing internally managed pools to participate as a direct investor in local investing opportunities. The Foundation is the sole member of the LLC. At December 31, 2017, the LLC had committed capital to one real estate company. The LLC is an Oklahoma limited liability company and will continue perpetually until terminated pursuant to statute or any provision of the operating agreement.

The Foundation, in the capacity of trustee, holds, administers and invests assets for the Convention and institutions affiliated with the Convention, as well as for its own account. Trusts may have other charitable or non-charitable beneficiaries. Interests of the Foundation, Convention or affiliates of the Convention may be total or may represent only income or remainder interests.

The Foundation also holds assets for investment in a custodial capacity for the Convention and its affiliates. In addition, the Foundation administers trusts where affiliated organizations serve as trustee.

Activities of the Foundation include estate stewardship and gift planning for the Convention and its affiliates. Staff members work with Southern Baptist churches and associations both within and outside the State of Oklahoma to encourage financial support for local, state and national institutions through lifetime and testamentary planning.

The Foundation receives its financial support primarily from fees charged for the administration and investment of assets. In addition, annual appropriations are received from the Convention through its Cooperative Program.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

1. Consolidation

The accompanying financial statements have been prepared on the accrual basis and include the activities and net assets of 25:21 LLC, its wholly-owned subsidiary, from the date of formation to December 31, 2017. All significant intercompany balances and transactions have been eliminated.

2. Recognition of Donor Restrictions

Contributions received without restrictions are reported as an increase in unrestricted net assets. Donor restricted contributions are recognized as increases in permanently or temporarily restricted net assets. Permanently restricted net assets consist of the original contribution amount of permanent endowments or remainder interests that will become permanently endowed. Temporarily restricted net assets consist of the net increase over the original contribution amount for assets benefitting the Foundation directly as well as those where the Foundation does not benefit, but holds discretion on the distributions. Temporarily restricted net assets also include the remainder interests under split-interest agreements that transfer assets unconditionally upon the passage of a period of time, typically the life of the income beneficiary. The liability to income beneficiaries for future payments is determined by applying an annual discount rate of 5% (which equals the estimated long-term return on investments) to estimated payments under the agreements.

3. Cash and Cash Equivalents

The Foundation maintains its cash and cash equivalents in bank deposit accounts, money market funds and short-term certificates of deposit, some of which may not be federally insured. Bank deposit balances are transferred daily into interest-bearing accounts secured by short-term, high-quality fixed income securities issued by banks, corporations and the U.S. Government. The Foundation has not experienced any losses in cash equivalents and believes it is not exposed to significant credit risk on cash equivalents. Management considers highly liquid debt instruments readily convertible into cash to be cash equivalents other than cash equivalents held as part of its investment portfolio.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### 4. Investments

##### Pooled Investments

The Foundation pools the assets under its ownership, administration, or control into various equity, fixed income, and alternative investment pools.

Pro-rata ownership in the pools is determined under a system in which units of ownership are recorded to represent each member's share of the total market value of assets. Investment interest, dividends, gains, losses and appreciation or depreciation in market value are allocated based on each pool member's percentage of ownership represented by these units. The cost of securities sold is determined on a specific identification basis.

Domestic and international equities consist primarily of cash equivalents and marketable equity securities. Fixed income assets consist primarily of cash equivalents and corporate and governmental debt securities. In addition, the fixed income assets include church building loans. Alternative investments consist primarily of cash equivalents, futures contracts, and other investment vehicles including structured settlements, distressed debt, venture capital, private equity, real estate, real assets, and hedge funds.

Pooled investments are carried at fair market value or at cost if no fair market value can be established. Fair market value for pooled investments, excluding church building loans and alternative investments, is provided by brokers. Church building loans are carried at the total principal balance of these loans less an allowance for loan losses. The Board of Directors (Board) approves the methodology used to establish interest rates so that the rates reflect market conditions. The adjustable interest rate on each church building loan is adjusted either on a one, three, five, or ten year basis, dependent on terms selected by the borrower at the time of loan origination. These adjustments result in the principal balances approximating current market value. Management believes that adjustments, if any, to market value would be nominal and, as such, the carrying value approximates market value. Church building loans mature at various dates through December 2038 and bear interest at rates ranging from 2.50% to 6.75%.

Alternative investments are carried at the net asset value (NAV) of the fund as provided by the administrator or general partner. Management evaluates the values provided based on a number of factors, including obtaining an understanding of the fund's underlying investments, strategy, positions and valuation methodologies, obtaining audited financial statements, obtaining verification of transactions at or near year end, and comparing information provided by the fund administrator or general partner to other available information such as sector data and indices. Because alternative investments are not readily marketable, their NAV is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such a difference could be material. Realized and unrealized gains and losses for the Foundation's investments are reflected in the statements of activities and changes in net assets.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### Other Investments

Other investments stated at fair market value consist primarily of corporate stocks, mutual funds, bonds, oil and gas income producing properties, and a limited partnership. The corporate stocks, mutual funds, bonds, are stated at fair market value provided by brokers. Oil and gas income producing properties are stated at fair market value as calculated by the Foundation at five times the annual income from that property. The limited partnership is stated at fair market value as determined by the Foundation after examining current purchases and sales of the fund as provided by the audit of the fund in addition to observing partnership agreements and current offering documents.

Certain other investments, including notes and other debt instruments redeemable at face value and annuity contracts, are carried at contributed or acquisition value as these assets do not have readily determinable market values. The Foundation evaluates cost basis investments for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. When required, impairment losses are recognized based upon the estimated fair value of the investment.

#### 5. Allowance for Loan Losses

Church building loans included in fixed income pools are presented net of an allowance for loan losses. The adequacy of the allowance is determined by the Foundation's management and Board based on a number of factors, including the collection of loans and evaluation of underlying collateral values, loss experience, identification and review of problem loans, quality of the loan portfolio and business and economic conditions. However, ultimate losses may differ from these estimates.

#### 6. Interest on Loans

Interest on loans is accrued based upon the principal amount outstanding. Loans are placed on nonaccrual status and are considered impaired based on the judgment of management and the Foundation Loan Services Committee, considering factors such as number of days past due and collateral position, unless their collateral position or other conditions warrant continued accrual status. It is the Foundation's policy to reverse previously accrued but uncollected interest on loans placed on nonaccrual status. Interest on nonaccrual loans is recognized only as it is received and only after the principal balance is satisfied. Earned but unrecorded interest on nonaccrual loans subsequently refinanced is deferred and recognized over the remaining life of the loan. The Foundation had one loan on nonaccrual status at December 31, 2017 and 2016.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### 7. Liabilities for Participation Agreements

Although most loans made by the Foundation are to Southern Baptist churches within the state of Oklahoma, loans are also made to Southern Baptist churches in other states. In some cases, cooperating state foundations will invest in loans made in their state through a participation agreement with the Foundation. The governing participation agreements do not allow the sale of the cooperating foundation's investment in the loans to a third party organization. As a result, these participation agreements do not meet the accounting criteria for treatment as a sale and, therefore, are shown as a liability instead of a reduction in the notes receivable balance.

#### 8. Remainder Interests in Assets Held by Others

Remainder interests in assets held by others are carried at the present value of expected future cash flows with realized and unrealized gains and losses reflected in the statements of activities and changes in net assets.

#### 9. Donor Advised Funds

Donor advised funds are reported as irrevocable interests in the liability category of Assets Held for Others since donations to these accounts are irrevocable. The Foundation has variance powers, or legal control, over the assets in each account. However, each account has an advisor, or advisors, that retains advisory privileges with respect to the distribution of the funds and the investment of the assets. The Foundation's procedure has been to honor these requests as long as each meets legal guidelines and does not conflict with the Foundation's mission.

#### 10. Property and Equipment

Major expenditures for property and equipment are capitalized at cost while donated property and equipment are capitalized at fair market value at the date of the gift. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. The estimated useful lives predominately range from three to ten years for property and equipment other than buildings, which are depreciated for 40 years. No provision is made for depreciation on properties carried as other investments.

The Foundation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. When required, impairment losses are recognized based upon the estimated fair value of the asset.

#### 11. Liabilities to Beneficial Owners

The Foundation has recorded liabilities for assets held as trustee, intermediary, custodian or agent for beneficial owners of income or remainder interests. Generally, the Foundation's liability is limited to assets held within a specific trust or account. The Foundation, however, may be responsible for the payments to annuitants under certain gift annuity contracts out of its own assets.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### 12. Appropriations to Preserve Principal

According to the terms of certain trust provisions, a portion of income may be added to corpus to preserve the value of the trust corpus according to donor stipulation.

#### 13. Fair Value of Financial Instruments

All financial instruments for which it is practicable to estimate fair value are carried as such in the accompanying financial statements.

#### 14. Tax Status

The Foundation, is recognized as a not-for-profit, tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from federal income taxes except for amounts relating to unrelated business income. There were no unrelated business income taxes incurred in either 2017 or 2016. Accordingly, no provision for taxes has been made in the accompanying financial statements. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Generally, the Foundation is no longer subject to income tax examination by federal, state or local tax authorities for years prior to 2013. In addition, the Foundation had net operating loss carryforwards of approximately \$2,189,000 at December 31, 2017 which begin to expire in 2026. The generation of the net operating loss carryforward is a result of unrelated business losses from their various partnership investments. At no time since the inception of these investments has the organization generated net unrelated business income. There were no deferred income taxes at December 31, 2017 or 2016 due to valuation allowances associated with deferred income tax assets. The Foundation's wholly-owned subsidiary, 25:21 LLC, is an Oklahoma limited liability company and therefore is treated as pass-through entity for income tax purposes. As a pass-through entity, income taxes on net earnings are payable by the members and are not reflected in the financial statements.

#### 15. Functional Allocation of Expenses

The cost of providing the Foundation's various programs, activities, and general support have been summarized on a functional basis. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Allocated expenses include depreciation and occupancy, salaries and benefits, and information technology. Depreciation and occupancy are both allocated based on square footage, salaries and benefits are allocated based on estimates of time and effort, and the information technology is allocated based on estimates of time and costs of specific technology utilized.

As the Foundation does not actively solicit contributions for their own benefit, no amounts have been allocated to fundraising activities.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### 16. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual amounts could differ from those estimates.

#### 17. Reclassifications

Certain reclassifications of prior year comparative information have been made in order to conform to current year presentation. These reclassifications had no effect on net assets or the change in net assets.

#### 18. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 will make a number of significant changes to the presentation of financial statements for not-for-profit entities. The guidance requires retrospective application and will be effective for financial statements issued for fiscal years beginning after December 15, 2017. Early implementation is allowed. The Foundation has chosen to early implement the Board designated net assets and the quantitative and qualitative liquidity disclosure requirements while currently evaluating the remaining impact of this pronouncement.

### NOTE B - POOLED INVESTMENTS

Investments of the various funds under management of the Foundation are primarily held in pooled investments. Pooled investments consist of domestic equities, international equities, fixed income, and alternative investments.

Trust and custodial accounts participate in the respective pools based upon investment models. These models represent ownership percentages designed for various types of trusts and accounts based on the respective needs for current income or capital appreciation. Entry or withdrawal from the pools is based upon the market value of a pool unit. Market value of a pool unit is determined by dividing the total assets by total units outstanding.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE B - POOLED INVESTMENTS - CONTINUED

The following is a summary of assets held in pooled investments at December 31:

	2017		
	Cost	Appreciation (depreciation)	Market
Domestic equities			
Cash	\$ (71,099)	\$ -	\$ (71,099)
Accrued dividends	12,588	-	12,588
Money market accounts	647,377	-	647,377
Marketable equity securities	46,470,004	14,193,517	60,663,521
	<u>47,058,870</u>	<u>14,193,517</u>	<u>61,252,387</u>
International equities			
Cash	(5,326)	-	(5,326)
Money market accounts	206,682	-	206,682
Marketable equity securities	50,279,181	13,627,467	63,906,648
	<u>50,480,537</u>	<u>13,627,467</u>	<u>64,108,004</u>
Fixed income			
Cash	903,581	-	903,581
Money market accounts	116,503	-	116,503
Foreign debt securities	163,425	6,747	170,172
Corporate debt securities	2,285,419	(104,064)	2,181,355
U.S. Government securities	14,143,808	(63,315)	14,080,493
Short Term Investments	4,131,839	37,515	4,169,354
Accrued interest income	70,933	-	70,933
Church building loans	87,655,846	-	87,655,846
Accrued interest on loans	212,608	-	212,608
Allowance for loan losses	(1,883,431)	-	(1,883,431)
	<u>107,800,531</u>	<u>(123,117)</u>	<u>107,677,414</u>
Alternative investments			
Cash and money market accounts	3,309,992	-	3,309,992
Margin cash	10,357,264	-	10,357,264
Futures contracts (mark-to-market)	-	243,405	243,405
Church building loans	500,000	-	500,000
Structured settlements	3,526,774	42,767	3,569,541
Distressed debt	496,682	935,721	1,432,403
Distressed equity	24,051,482	3,709,654	27,761,136
Venture capital	6,245,068	4,946,257	11,191,325
Private equity	11,452,943	5,797,952	17,250,895
Real estate	11,751,871	1,512,228	13,264,099
Real assets	5,456,176	2,475,935	7,932,111
Developed markets hedge fund	7,409,304	(209,986)	7,199,318
Emerging markets hedge fund	9,000,000	1,600,365	10,600,365
Absolute return hedge fund	22,694,155	3,017,566	25,711,721
Direct lending	7,463,729	128,592	7,592,321
	<u>123,715,440</u>	<u>24,200,456</u>	<u>147,915,896</u>
Total pooled investments	<u>\$ 329,055,378</u>	<u>\$ 51,898,323</u>	<u>\$ 380,953,701</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE B - POOLED INVESTMENTS – CONTINUED

	2016		
	Cost	Appreciation (depreciation)	Market
<b>Domestic equities</b>			
Cash	\$ (56,512)	\$ -	\$ (56,512)
Accrued dividends	-	-	-
Money market accounts	2,171,619	-	2,171,619
Marketable equity securities	<u>29,128,256</u>	<u>8,038,991</u>	<u>37,167,247</u>
	<u>31,243,363</u>	<u>8,038,991</u>	<u>39,282,354</u>
<b>International equities</b>			
Cash	329	-	329
Accrued dividends	-	-	-
Money market accounts	220,353	-	220,353
Marketable equity securities	<u>41,836,697</u>	<u>(489,701)</u>	<u>41,346,996</u>
	<u>42,057,379</u>	<u>(489,701)</u>	<u>41,567,678</u>
<b>Fixed income</b>			
Cash	368,015	-	368,015
Money market accounts	213,587	-	213,587
Foreign debt securities	279,248	245	279,493
Corporate debt securities	3,868,917	(169,494)	3,699,423
U.S. Government securities	16,568,804	(371,746)	16,197,058
Accrued interest income	72,287	-	72,287
Church building loans	78,236,024	-	78,236,024
Accrued interest on loans	216,906	-	216,906
Allowance for loan losses	<u>(1,883,431)</u>	<u>-</u>	<u>(1,883,431)</u>
	<u>97,940,357</u>	<u>(540,995)</u>	<u>97,399,362</u>
<b>Alternative investments</b>			
Cash and money market accounts	(869,062)	-	(869,062)
Margin cash	8,230,027	-	8,230,027
Futures contracts (mark-to-market)	-	(83,267)	(83,267)
Church building loans	15,000,000	-	15,000,000
Structured settlements	3,876,990	45,852	3,922,842
Distressed debt	542,482	864,245	1,406,727
Distressed equity	17,771,800	1,923,569	19,695,369
Venture capital	7,179,064	4,114,871	11,293,935
Private equity	11,252,930	4,319,563	15,572,493
Real estate	5,763,614	1,316,390	7,080,004
Real assets	5,938,034	2,064,601	8,002,635
Developed markets hedge fund	32,279,131	(1,004,529)	31,274,602
Emerging markets hedge fund	9,000,000	1,378,911	10,378,911
Absolute return hedge fund	24,006,556	2,388,009	26,394,565
Commodities hedge fund	208,683	-	208,683
Direct lending	<u>5,239,829</u>	<u>(55,291)</u>	<u>5,184,538</u>
	<u>145,420,078</u>	<u>17,272,924</u>	<u>162,693,002</u>
<b>Total pooled investments</b>	<u>\$ 316,661,177</u>	<u>\$ 24,281,219</u>	<u>\$ 340,942,396</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE B - POOLED INVESTMENTS - CONTINUED

#### *Alternative Investments*

The Foundation uses the NAV to determine the fair value for all alternative investments which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. The following table lists investments in other investment companies (through limited partnerships) by major category at December 31.

Investment Category	Fair Value (Determined Using NAV)		Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Period
	2017	2016	2017		
Structured settlements (a)	\$ 3,569,541	\$ 3,922,842	\$ -	N/A	N/A
Distressed debt (b)	1,432,403	1,406,727	124,044	N/A	N/A
Distressed equity (c)	27,761,136	19,695,369	16,345,745	N/A	N/A
Venture capital (d)	10,553,107	10,830,693	2,209,131	N/A	N/A
Private equity (e)	17,250,895	15,572,493	18,711,089	N/A	N/A
Real estate (f)	11,944,304	6,721,444	7,904,560	N/A	N/A
Real assets (g)	7,932,111	8,002,635	5,832,082	N/A	N/A
Developed market hedge fund (h)	7,199,318	31,274,602	-	Quarterly	Full redemption requested
Emerging markets hedge fund (i)	10,600,365	10,378,911	-	Quarterly	65 days
Absolute return hedge fund (j)	25,711,721	26,394,565	-	Quarterly	45-65 days
Commodities hedge fund (k)	-	208,683	-	N/A	N/A
Direct lending (l)	7,592,321	5,184,538	6,015,554	N/A	N/A
	<u>\$ 131,547,222</u>	<u>\$ 139,593,502</u>	<u>\$ 57,142,205</u>		

- (a) This category includes an investment in a fund that purchases annuities from litigants for a present value discounted price. The annuities are typically held until maturity. The fund returns contributed capital to investors as the fund receives the annuity payments. Redemption by the investor is not permitted.
- (b) This category includes investments in limited partnerships that invest in non-performing collateralized loans from banks, government agencies, or other financial organizations. The strategy is to pursue investments collateralized by or involving an ownership interest in hard or resalable assets at a deep discount to face or book value. The partnerships return contributed capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.
- (c) This category includes investments in limited partnerships that invest in multiple manager investment programs that seek to invest globally in top-tier distressed and turnaround managers in both private and public markets. The partnerships return contributed capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE B - POOLED INVESTMENTS - CONTINUED

#### *Alternative Investments - Continued*

- (d) This category includes investments in limited partnerships that invest in venture capital with exposure to early stage opportunities. The investment objective is to attain small capitalization equity-like returns. The partnerships return contributed capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.
- (e) This category includes investments in limited partnerships that invest in private equity partnerships using multiple strategies either by direct investment or by purchase on a secondary market. The investment objective will be to attain equity-like returns over the life of the partnership. The partnerships return contributed capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.
- (f) This category includes investments in limited partnerships that invest with developers in real estate. The partnerships return contributed capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.
- (g) This category includes investments in limited partnerships that invest in real assets funds with strategies including oil and gas production, power and energy infrastructure, and oil and gas private equity. The partnerships seek to earn returns that protect the portfolio against inflation. The partnerships return capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.
- (h) This category includes investments in limited partnerships attempting to achieve returns consistent to that of public markets over a full economic cycle with less volatility by investing both long and short in public companies in developed markets. For two investments, no redemptions are currently allowed. Both investments plan to return all capital within the next two years. Capital will be returned to investors as the underlying holdings are liquidated. For the remaining two investments, the Foundation has begun requesting redemption based on stated partnership terms and expects full return of capital within one year.
- (i) This category includes an investment in a limited partnership that attempts to achieve returns consistent to that of public markets over a full economic cycle with less volatility by investing both long and short in public companies in emerging markets. The investment in this category can be redeemed quarterly based on stated partnership terms.
- (j) This category includes investments in limited partnerships that invest in hedge funds using multiple managers and multiple strategies. The goal of each investment is the preservation of capital while seeking to achieve superior, consistent, absolute returns with a risk level comparable to the major bond indices. For three investments, no redemptions are currently allowed. All three investments should return remaining capital within the next two years. Capital will be returned to investors as the underlying holdings are liquidated. For another investment, full redemption has been requested based on stated partnership terms. Only a litigation holdback remains in this investment and return of capital is expected upon resolution of the lawsuit. Each of the other investments in this category can be redeemed quarterly based on stated partnership terms.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE B - POOLED INVESTMENTS – CONTINUED

#### *Alternative Investments - Continued*

- (k) The Foundation received the remaining capital during 2017.
- (l) This category includes investments in limited partnerships that provide comprehensive financing solutions. Redemption by the investor is not permitted.

#### *Futures Contracts*

Included in the alternative investments are exchange traded equity index futures contracts. These contracts are a type of derivative instrument and are traded on the Chicago Mercantile Exchange (Exchange). Because the instruments are purchased on the Exchange, there is minimal credit risk associated with these contracts. Exchange traded futures contracts can be terminated at any point through maturity, and are redeemable in cash, for the current settlement price with no early termination restrictions or penalties.

Buying futures contracts increases the exposure to the underlying instrument. The notional cost represents the value of the market exposure at the time of purchase. The notional fair value is the value of the exposure at December 31. The futures contracts mark-to-market is the unrealized gain/(loss) on the open contracts. These open contracts had a notional value as follows at December 31:

	Open Contracts	Maturity Date	2017		
			Notional Cost	Notional Fair Value	Futures Contracts (Mark-to-Market)
S&P 500 E-mini futures contracts	144	3/16/2018	\$ 19,023,795	\$ 19,267,200	\$ 243,405

  

	Open Contracts	Maturity Date	2016		
			Notional Cost	Notional Fair Value	Futures Contracts (Mark-to-Market)
S&P 500 E-mini futures contracts	297	3/17/2017	\$ 33,290,837	\$ 33,207,570	\$ (83,267)

No assets or liabilities are recorded at the time of purchase. However, upon entering into futures contracts, the Foundation was required to deposit with its broker cash in accordance with the initial margin requirements. At December 31, 2017 the broker required margin of \$712,800 and the Foundation had \$10,600,669 deposited. Gains and losses are realized when the contracts expire or are closed. Futures contracts are marked-to-market daily, by the receipt or transfer of cash, based on settlement prices established by the Exchange and an appropriate unrealized gain or loss for the change in value is recorded.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE B - POOLED INVESTMENTS - CONTINUED

#### *Futures Contracts - Continued*

The Foundation had an unrealized mark-to-market gains/(losses) of \$243,405 and (\$83,267) on open futures contracts at December 31, 2017 and 2016, respectively. The realized and unrealized net gain from futures contracts was \$4,402,683 and \$3,175,912 for the years ending December 31, 2017 and 2016, respectively. The gain attributable to the Foundation is included in the Statements of Activities and Changes in Net Assets and the gain attributable to beneficial owners is included in the Statements of Changes in Liabilities to Beneficial Owners.

### NOTE C - OTHER INVESTMENTS - AT MARKET

The following summarizes other investments carried at market value at December 31:

	2017		
	Cost or contributed value	Appreciation (depreciation)	Market value
Corporate stocks and mutual funds	\$ 6,668,163	\$ 71,201	\$ 6,739,364
Mineral interests	4,189,483	23,380,090	27,569,573
Limited partnerships	3,323,850	450,500	3,774,350
Total	<u>\$ 14,181,496</u>	<u>\$ 23,901,791</u>	<u>\$ 38,083,287</u>

  

	2016		
	Cost or contributed value	Appreciation (depreciation)	Market value
Corporate stocks and mutual funds	\$ 5,769,641	\$ 286,583	\$ 6,056,224
Mineral interests	4,189,474	15,055,437	19,244,911
Limited partnerships	3,323,850	175,000	3,498,850
Total	<u>\$ 13,282,965</u>	<u>\$ 15,517,020</u>	<u>\$ 28,799,985</u>

The Limited Partnerships are an investment in a single fund. The Foundation owns \$3,425,000 of the fund and a Donor Advised Fund managed by the Foundation owns \$349,350 of the fund. Neither of the two beneficiaries have an unfunded commitment. The general partner allows redemptions from the fund quarterly with 60 days written notice as long as cumulative requests from all limited partners does not exceed 1.25%.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE D - LOANS AND ALLOWANCE FOR LOAN LOSSES

The Foundation provides loans primarily to churches for church building projects. The church building loans are primarily to churches in Oklahoma. In addition to church building loans, which are included in pooled investments, the Foundation manages several trusts that make loans. The Foundation's lending policy requires that church building loans be collateralized by sufficient assets to provide a margin of safety between the loan balance and the value of the underlying collateral securing the loan. When borrowers default on loans, the Foundation can pursue normal legal actions to foreclose upon or repossess the collateral securing the loan.

The following summarizes loans at December 31:

	2017	2016
Church building loans	\$ 88,155,846	\$ 93,236,024
Notes receivable from Convention	2,491,994	-
Notes receivable held in trust accounts	139,154	228,597
	<u>90,786,994</u>	<u>93,464,621</u>
Less allowance for loan losses	(1,883,431)	(1,883,431)
Net Loans	<u>\$ 88,903,563</u>	<u>\$ 91,581,190</u>

The interest rate on all of the church building loans adjust on a one, three, five, or ten year basis, dependent on terms selected by the borrower at the time of loan origination. The notes receivable from the Convention and the notes receivable held in trust accounts all have fixed rates. The following is a summary of fixed-rate loans by contractual maturity at December 31:

	2017	2016
Due in 1 year or less	\$ -	\$ -
Due after 1 year through 5 years	2,512,202	96,011
Due after 5 years	118,946	132,586
	<u>\$ 2,631,148</u>	<u>\$ 228,597</u>

The Foundation manages trusts that were created to provide student loans. The Foundation has provided, through these trusts, loans to family members of an officer as well as loans to family members of current and former directors. These loans were made in accordance with the terms of the trust document. During 2016, an employee, whose child was the borrower on a student loan, was terminated. As such, the loan began 2016 as a related party loan, but is no longer as of December 31, 2017. Also, the Foundation manages a revocable trust which has provided a trust loan to a family member of a former officer. This loan was made at the direct instruction of the trustor of the revocable trust. In aggregate, these loans totaled \$30,892 and \$56,094 at December 31, 2017 and 2016, respectively. A summary of changes in the related party loans, during 2017 and 2016 is as follows:

	2017	2016
Balance at beginning of year	\$ 56,094	\$ 62,996
Termination of related party	-	(8,932)
Advances	2,000	7,528
Payments	(27,202)	(5,498)
Balance at end of year	<u>\$ 30,892</u>	<u>\$ 56,094</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE D - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

The following presents an aging analysis of the outstanding loans, by class, at December 31:

	2017					
	Past Due Loans			Current Loans	Total Loans	Accruing Loans Over 90 Days Past Due
	30-90 Days	Over 90 Days	Total			
Church building loans	\$ -	\$ 535,882	\$ 535,882	\$ 87,619,964	\$ 88,155,846	\$ -
Notes receivable from Convention	-	-	-	2,491,994	2,491,994	-
Notes receivable held in trust accounts	-	-	-	139,154	139,154	-
	<u>\$ -</u>	<u>\$ 535,882</u>	<u>\$ 535,882</u>	<u>\$ 90,251,112</u>	<u>\$ 90,786,994</u>	<u>\$ -</u>

  

	2016					
	Past Due Loans			Current Loans	Total Loans	Loans Over 90 Days Past Due
	30-90 Days	Over 90 Days	Total			
Church building loans	\$ 685,882	\$ -	\$ 685,882	\$ 92,550,142	\$ 93,236,024	\$ -
Notes receivable from Convention	-	-	-	-	-	-
Notes receivable held in trust accounts	-	-	-	228,597	228,597	-
	<u>\$ 685,882</u>	<u>\$ -</u>	<u>\$ 685,882</u>	<u>\$ 92,778,739</u>	<u>\$ 93,464,621</u>	<u>\$ -</u>

The following is a summary of the changes in the allowance for loan losses at December 31:

	2017	2016
Balance at beginning of year	\$ 1,883,431	\$ 1,896,285
Loans charged off	-	(12,854)
Provision for doubtful loans	-	-
Recoveries of amounts previously charged-off	-	-
Balance at end of year	<u>\$ 1,883,431</u>	<u>\$ 1,883,431</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE D - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

The following presents the activity in the allowance for loan losses by portfolio segment at December 31:

	2017				
	Church Building	Notes Receivable from Convention	Notes Receivable Held in Trust		Total
	Loans		Accounts		
Allowance for loan losses:					
Summary of changes -					
Balance at beginning of year	\$ 1,883,431	\$ -	\$ -	\$ -	\$ 1,883,431
Loans charged off	-	-	-	-	-
Provision for doubtful loans	-	-	-	-	-
Recoveries of amounts previously charged-off	-	-	-	-	-
Balance at end of year	<u>\$ 1,883,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,883,431</u>
Ending Balances -					
Individually evaluated for impairment	\$ 328,000	\$ -	\$ -	\$ -	\$ 328,000
Collectively evaluated for impairment	<u>1,555,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,555,431</u>
	<u>\$ 1,883,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,883,431</u>
Loans:					
Ending Balances -					
Individually evaluated for impairment	\$ 1,782,630	\$ 2,491,994	\$ 139,154	\$ -	\$ 4,413,778
Collectively evaluated for impairment	<u>86,373,216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,373,216</u>
	<u>\$ 88,155,846</u>	<u>\$ 2,491,994</u>	<u>\$ 139,154</u>	<u>\$ -</u>	<u>\$ 90,786,994</u>
2016					
	Church Building	Notes Receivable from Convention	Notes Receivable Held in Trust		Total
	Loans		Accounts		
Allowance for loan losses:					
Summary of changes -					
Balance at beginning of year	\$ 1,896,285	\$ -	\$ -	\$ -	\$ 1,896,285
Loans charged off	(12,854)	-	-	-	(12,854)
Provision for doubtful loans	-	-	-	-	-
Recoveries of amounts previously charged-off	-	-	-	-	-
Balance at end of year	<u>\$ 1,883,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,883,431</u>
Ending Balances -					
Individually evaluated for impairment	\$ 328,000	\$ -	\$ -	\$ -	\$ 328,000
Collectively evaluated for impairment	<u>1,555,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,555,431</u>
	<u>\$ 1,883,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,883,431</u>
Loans:					
Ending Balances -					
Individually evaluated for impairment	\$ 3,936,440	\$ -	\$ 228,597	\$ -	\$ 4,165,037
Collectively evaluated for impairment	<u>89,299,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,299,584</u>
	<u>\$ 93,236,024</u>	<u>\$ -</u>	<u>\$ 228,597</u>	<u>\$ -</u>	<u>\$ 93,464,621</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE D - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

The Foundation had one loan on nonaccrual status at December 31, 2017 and 2016. A loan is placed on nonaccrual status when, in the opinion of management, the future collectability of interest or principal, or both, is in serious doubt. Total interest income which was not accrued on nonaccrual loans outstanding was \$18,752 and \$19,007 at December 31, 2017 and 2016, respectively.

The Foundation had one impaired loan with an unpaid principal balance of \$535,882 and \$560,882 at December 31, 2017 and 2016, respectively. The related allowance for loan losses was \$328,000 at both December 31, 2017 and 2016. Loans are considered impaired when, based on current information and events, it is probable the Foundation will be unable to collect the full amount of scheduled principal and interest payments in accordance with the original contractual terms of the loan agreement. If a loan is impaired, a specific valuation allowance may be allocated so that the loan is reported net of an allowance for loss. No interest income was recognized on impaired loans subsequent to their classification as impaired.

This impaired loan resulted from the Foundation modifying the terms of two church building loans from the same church in 2012. The loans modified were a 5.75%, \$500,000 loan with accrued interest of \$5,541 and a 5.75%, \$165,839 loan with accrued interest of \$2,299. Both loans were combined into one loan. The loan was further modified in 2013 and then again in 2016. Under the 2013 terms, the loan did not accrue interest and the borrower agreed to remit \$3,000 principal only payments each month through April 2016. In May 2016 the borrower was scheduled to pay all unpaid principal in a single balloon payment. In 2016, the balloon payment was extended to June 2018 and additional collateral was added to the loan. Interest income of \$6,373 was recorded in 2013 before the loan was converted to non-accrual status on April 26, 2013. Had the terms of the original loans not been modified, and if the restructured loan was not placed on non-accrual status, interest income of \$38,711 and \$38,817 would have been recorded in 2017 and 2016. The Foundation has not written off any principal or previously accrued interest as a result of either loan modification described above. However, a specific allowance for loan losses of \$328,000 was created as a part of the first modification. The Foundation has maintained this specific allocation since it was established.

To assess the credit quality of loans, the Foundation classifies loans into risk categories based on relevant information about the ability of the borrowers to service their debts. The information used to classify the loans includes current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. This analysis is performed on a quarterly basis. The Foundation uses the following definitions for risk classifications:

Pass - Loans classified as pass represent reasonable and satisfactory credit risk which requires normal attention and supervision. There are no known potential weaknesses and capacity to repay is not questioned.

Special mention - Loans classified as special mention have potential weaknesses that deserve management's close attention. These potential weaknesses may result in deterioration of the repayment prospects for these loans at some future date.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE D - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

Substandard - Performing - Loans in this category are performing, but are considered problems. Loans in this category would include, but not be limited to, borrowers with a weakened financial condition, poor performance history, past dues, and/or loans restructured to reduce payments. In general, these loans have no identifiable loss potential in the near future, however, the possibility of a loss developing is heightened.

Substandard - Nonperforming - Loans in this category have one or more well-defined weaknesses that jeopardize collection of the debt and are inadequately protected by the current collateral pledged, if any. They are characterized by the distinct possibility that the Foundation will sustain some loss if the deficiencies are not corrected. These loans are considered potential nonperforming or nonperforming loans depending on the accrual status of the loans.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or full recovery, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following presents a summary of loans by risk category at December 31:

	Church Building Loans		Notes Receivable from Convention		Notes Receivable Held in Trust Accounts	
	2017	2016	2017	2016	2017	2016
Pass	\$ 86,373,216	\$ 90,450,357	\$ 2,491,994	\$ -	\$ 139,154	\$ 228,597
Special mention	1,246,748	2,224,785	-	-	-	-
Substandard-performing	-	-	-	-	-	-
Substandard-nonperforming	535,882	560,882	-	-	-	-
Doubtful	-	-	-	-	-	-
	<u>\$ 88,155,846</u>	<u>\$ 93,236,024</u>	<u>\$ 2,491,994</u>	<u>\$ -</u>	<u>\$ 139,154</u>	<u>\$ 228,597</u>

### NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

#### *Fair Value Measurements*

ASC 820 requires the Foundation to disclose estimated fair values for all financial instruments and non-financial instruments measured at fair value on a recurring basis. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

In determining fair value, the Foundation uses various valuation approaches. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

There were no transfers or reclassifications between levels during 2017 or 2016.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

#### *Fair Value Measurements – Continued*

The following table presents the fair value measurements of investments recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at December 31:

	2017			
	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
<b>Pooled Investments</b>				
Domestic equities				
Cash and money market accounts	\$ 588,866	\$ 588,866	\$ -	\$ -
Basic materials	2,107,152	2,107,152	-	-
Consumer discretionary	7,083,061	7,083,061	-	-
Consumer staples	4,274,960	4,274,960	-	-
Energy	3,764,878	3,764,878	-	-
Financials	12,364,247	12,364,247	-	-
Health care	7,492,918	7,492,918	-	-
Industrials	7,109,312	7,109,312	-	-
Information technology	13,212,066	13,212,066	-	-
Telecommunications	1,065,148	1,065,148	-	-
Real Estate	15,113	15,113	-	-
Utilities	<u>2,174,666</u>	<u>2,174,666</u>	-	-
Total domestic equity	<u>61,252,387</u>	<u>61,252,387</u>	-	-
International equities				
Cash and money market accounts	201,356	201,356	-	-
Basic materials	3,194,093	3,194,093	-	-
Consumer discretionary	9,032,306	9,032,306	-	-
Consumer staples	6,318,536	6,318,536	-	-
Energy	2,898,634	2,898,634	-	-
Financials	17,231,807	17,231,807	-	-
Health care	3,796,557	3,796,557	-	-
Industrials	6,942,488	6,942,488	-	-
Information technology	10,689,618	10,689,618	-	-
Telecommunications	2,668,075	2,668,075	-	-
Utilities	<u>1,134,534</u>	<u>1,134,534</u>	-	-
Total international equity	<u>64,108,004</u>	<u>64,108,004</u>	-	-
Fixed income				
Cash and money market accounts	1,020,084	1,020,084	-	-
Foreign debt securities	170,172	-	170,172	-
Corporate debt securities	2,181,355	-	2,181,355	-
Short Term Investments	4,169,354	-	4,169,354	-
U.S. Government securities	14,080,493	14,080,493	-	-
Accrued interest income	70,933	70,933	-	-
Church building loans (net)	<u>85,985,023</u>	-	<u>85,985,023</u>	-
Total fixed income	<u>107,677,414</u>	<u>15,171,510</u>	<u>92,505,904</u>	-

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

#### Fair Value Measurements – Continued

	2017 - Continued			
	Fair Value Measurement Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Alternative investments				
Cash and money market accounts	\$ 3,309,992	\$ 3,309,992	\$ -	\$ -
Margin cash	10,600,669	10,600,669	-	-
Church building loans	500,000	-	500,000	-
Alternative investments	1,958,013	81,097	-	1,876,916
Alternative investments (measured at NAV)	131,547,222	-	-	-
Total alternative investments	<u>147,915,896</u>	<u>13,991,758</u>	<u>500,000</u>	<u>1,876,916</u>
Total pooled investments	<u>380,953,701</u>	<u>154,523,659</u>	<u>93,005,904</u>	<u>1,876,916</u>
Other				
Corporate stocks and mutual funds	6,739,364	6,739,364	-	-
Mineral interests	27,569,573	-	-	27,569,573
Limited partnerships	3,774,350	-	-	3,774,350
Total other	<u>38,083,287</u>	<u>6,739,364</u>	<u>-</u>	<u>31,343,923</u>
Total asset instruments at fair value	<u>\$ 419,036,988</u>	<u>\$ 161,263,023</u>	<u>\$ 93,005,904</u>	<u>\$ 33,220,839</u>
Liabilities to beneficial owners				
Assets held for others	\$ 283,583,349	\$ -	\$ -	\$ 283,583,349
Refundable advances	127,004,000	-	-	127,004,000
Total liability instruments at fair value	<u>\$ 410,587,349</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 410,587,349</u>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Beginning Balance	Reclassification to Level 3	Additional Investments	Distributions	Gain (Loss)	Ending Balance
Asset instruments at fair value						
Alternative investments	\$ 640,373	\$ -	\$ 1,069,132	\$ (41,205)	\$ 208,616	\$ 1,876,916
Limited partnerships	3,498,850	-	-	-	275,500	3,774,350
Mineral interests	19,244,911	-	42	(33)	8,324,653	27,569,573
	<u>\$ 23,384,134</u>	<u>\$ -</u>	<u>\$ 1,069,174</u>	<u>\$ (41,238)</u>	<u>\$ 8,808,769</u>	<u>\$ 33,220,839</u>
Liability instruments at fair value						
Assets held for others	\$ 244,002,560	\$ -	\$ 11,192,304	\$ (12,799,118)	\$ 41,187,603	\$ 283,583,349
Refundable advances	113,117,781	-	70,767,099	(68,725,885)	11,845,005	127,004,000
	<u>\$ 357,120,341</u>	<u>\$ -</u>	<u>\$ 81,959,403</u>	<u>\$ (81,525,003)</u>	<u>\$ 53,032,608</u>	<u>\$ 410,587,349</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

#### *Fair Value Measurements – Continued*

	2016			
	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
<b>Pooled Investments</b>				
<b>Domestic equities</b>				
Cash and money market accounts	\$ 2,115,107	\$ 2,115,107	\$ -	\$ -
Basic materials	1,108,427	1,108,427	-	-
Consumer discretionary	4,379,305	4,379,305	-	-
Consumer staples	2,904,591	2,904,591	-	-
Energy	2,673,826	2,673,826	-	-
Financials	7,357,344	7,357,344	-	-
Health care	4,665,598	4,665,598	-	-
Industrials	4,553,437	4,553,437	-	-
Information technology	7,056,444	7,056,444	-	-
Telecommunications	883,030	883,030	-	-
Real Estate	11,431	11,431	-	-
Utilities	1,573,814	1,573,814	-	-
<b>Total domestic equity</b>	<b>39,282,354</b>	<b>39,282,354</b>	<b>-</b>	<b>-</b>
<b>International equities</b>				
Cash and money market accounts	220,682	220,682	-	-
Basic materials	2,925,242	2,925,242	-	-
Consumer discretionary	5,998,273	5,998,273	-	-
Consumer staples	4,122,176	4,122,176	-	-
Energy	1,858,432	1,858,432	-	-
Financials	10,974,269	10,974,269	-	-
Health care	2,895,537	2,895,537	-	-
Industrials	3,915,107	3,915,107	-	-
Information technology	6,181,271	6,181,271	-	-
Telecommunications	1,643,780	1,643,780	-	-
Utilities	832,909	832,909	-	-
<b>Total international equity</b>	<b>41,567,678</b>	<b>41,567,678</b>	<b>-</b>	<b>-</b>
<b>Fixed income</b>				
Cash and money market accounts	581,602	581,602	-	-
Foreign debt securities	279,493	-	279,493	-
Corporate debt securities	3,699,423	-	3,699,423	-
U.S. Government securities	16,197,058	16,197,058	-	-
Accrued interest income	72,287	72,287	-	-
Church building loans (net)	76,569,499	-	76,569,499	-
<b>Total fixed income</b>	<b>97,399,362</b>	<b>16,850,947</b>	<b>80,548,415</b>	<b>-</b>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

#### Fair Value Measurements – Continued

	2016 - Continued			
	Fair Value Measurement Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Alternative investments				
Cash and money market accounts	\$ (869,062)	\$ (869,062)	\$ -	\$ -
Margin cash	8,146,760	8,146,760	-	-
Church building loans	15,000,000	-	15,000,000	-
Alternative investments	823,242	182,869	-	640,373
Alternative investments (measured at NAV)	139,592,062	-	-	-
Total alternative investments	<u>162,693,002</u>	<u>7,460,567</u>	<u>15,000,000</u>	<u>640,373</u>
Total pooled investments	<u>340,942,396</u>	<u>105,161,546</u>	<u>95,548,415</u>	<u>640,373</u>
Other				
Corporate stocks and mutual funds	6,056,224	6,056,224	-	-
Mineral interests	19,244,911	-	-	19,244,911
Limited Partnerships	3,498,850	-	-	3,498,850
Total other	<u>28,799,985</u>	<u>6,056,224</u>	<u>-</u>	<u>22,743,761</u>
Total asset instruments at fair value	<u>\$ 369,742,381</u>	<u>\$ 111,217,770</u>	<u>\$ 95,548,415</u>	<u>\$ 23,384,134</u>
Liabilities to beneficial owners				
Assets held for others	\$ (244,002,560)	\$ -	\$ -	\$ (244,002,560)
Refundable advances	(113,117,781)	-	-	(113,117,781)
Total liability instruments at fair value	<u>\$ (357,120,341)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (357,120,341)</u>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Beginning Balance	Reclassification to Level 3	Additional Investments	Distributions	Gain (Loss)	Ending Balance
Asset instruments at fair value						
Alternative Investments	\$ -	\$ -	\$ 647,967	\$ -	\$ (7,594)	\$ 640,373
Limited partnership	-	-	3,323,850	-	175,000	3,498,850
Mineral interests	20,588,246	-	10	-	(1,343,345)	19,244,911
	<u>20,588,246</u>	<u>-</u>	<u>3,971,827</u>	<u>-</u>	<u>(1,175,939)</u>	<u>23,384,134</u>
Liability instruments at fair value						
Assets held for others	(237,569,310)	-	(8,385,624)	14,438,642	(12,486,268)	(244,002,560)
Refundable advances	(106,473,343)	-	(39,260,888)	37,771,448	(5,154,998)	(113,117,781)
	<u>\$ (344,042,653)</u>	<u>\$ -</u>	<u>\$ (47,646,512)</u>	<u>\$ 52,210,090</u>	<u>\$ (17,641,266)</u>	<u>\$ (357,120,341)</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

#### *Fair Value of Financial Instruments*

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Foundation's financial assets and financial liabilities carried at fair value.

#### Pooled Investments

Domestic and International Equities - Securities classified as domestic or international equities are reported at fair value using level one inputs found on active markets.

Fixed Income - Fixed income securities are reported at fair value. U.S. Government securities are valued using Level 1 inputs. Other fixed income securities including foreign debt securities and corporate debt securities are valued using prices from an independent pricing service utilizing Level 2 inputs. The fair value measurements include observable data that may include dealer quotes, market spreads, cash flows, U.S. Treasury yield curve, live trading levels, trade execution data, credit information and the bond's terms and conditions among other things. Church building loans are carried at the total principal balance less an allowance for loan losses. Since the interest rates adjust on a one, three, five, seven or ten year basis, dependent on terms selected by the borrower, management believes that the carrying value of the loans, as described above, approximates market value. This valuation estimate is a Level 2 input.

Alternative investments - Margin cash held for futures contracts are reported at fair value using Level 1 inputs found on active markets. Church building loans are carried at the total principal balance. Management believes that the carrying value of the loans, as described above, approximates market value. This valuation estimate is a Level 2 input.

For limited partnerships, management determines the fair value based on net asset value per share as permitted by ASU 2009-12. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. Additional disclosure on limited partnerships measured at fair value using the net asset value per share is provided in Note B.

Cash and Cash Equivalents - Cash held in each pooled investment classification is measured using Level 1 inputs. Money market accounts held in each pooled investment classification is measured using Level 1 inputs.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

#### *Fair Value of Financial Instruments – Continued*

Other Investments – At Market - Other investments consist of corporate stocks and mutual funds valued using Level 1 inputs by an independent pricing service, bonds valued using Level 2 inputs by an independent pricing service and mineral interests. Observable inputs are not available for mineral interests. For mineral interests, management determines the fair value based on an income approach using recent past income produced by the income property. This valuation method is a Level 3 input. For limited partnerships, management determines the fair value based on examining current purchases and sales of the fund as provided by the audit of the fund in addition to observing partnership agreements and current offering documents. This valuation method is a Level 3 input.

Assets Held for Others and Refundable Advances - These liabilities represent the beneficiaries interest in the assets held by the Foundation. The liabilities are measured using Level 3 inputs that are equal to the fair value of the related assets held by the Foundation.

Cash and Cash Equivalents, Certificates of Deposit, Accounts Receivable, and Accounts Payable and Accrued Expenses - The carrying amount approximates fair value because of their short maturity and highly liquid nature.

Other Investments – Notes Receivable and Life and Annuity Contracts and Other - The carrying amount approximates fair value because contractual rates approximate market rates.

Liabilities for Participation Agreements – The carrying amount of the participation agreements is the total principal balance of the participation agreement. Since the interest rates adjust on a one, three, five, seven, or ten year basis, dependent on terms selected by the borrower, management believes the carrying value of the participation agreements, as described above, approximates market value.

Notes Payable – The carrying amount approximates fair value because contractual rates approximate market rates that are currently available to the Foundation.

Liabilities to Beneficial Owners – Liability to Income Beneficiaries Under Split-Interest Agreements - The carrying amount approximates fair value because the discount rates used to calculate this liability approximate current market rates that the Foundation could obtain for borrowings.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

#### *Fair Value of Financial Instruments – Continued*

The following table includes various estimated fair value information relating to certain of the Foundation's financial instruments and does not purport to represent the aggregate net fair value of the Foundation. The carrying amounts in the table are the amounts at which the financial instruments are reported in the financial statements.

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 19,891,594	\$ 19,891,594	\$ 14,562,204	\$ 14,562,204
Certificates of deposit	4,374,487	4,374,487	502,357	502,357
Operating receivables	17,414	17,414	11,142	11,142
Pooled investments	380,953,701	380,953,701	340,942,396	340,942,396
Other investments - at market	38,083,287	38,083,287	28,799,985	28,799,985
Other investments	2,808,304	2,808,304	398,559	398,559
<b>Total financial assets</b>	<b>\$ 446,128,787</b>	<b>\$ 446,128,787</b>	<b>\$ 385,216,643</b>	<b>\$ 385,216,643</b>
<b>Financial liabilities:</b>				
Accounts payable and accrued expenses	\$ 454,456	\$ 454,456	\$ 526,353	\$ 526,353
Liabilities for participation agreements	4,441,758	4,441,758	3,566,793	3,566,793
Notes Payable	2,491,994	2,491,994	-	-
Liabilities to beneficial owners				
Income beneficiaries under split-interest agreements:	4,942,521	4,942,521	5,336,866	5,336,866
Assets held for others and refundable advances	410,587,349	410,587,349	357,120,341	357,120,341
<b>Total financial liabilities</b>	<b>\$ 422,918,078</b>	<b>\$ 422,918,078</b>	<b>\$ 366,550,353</b>	<b>\$ 366,550,353</b>

Financial assets, as listed above, are the non-physical assets whose value is derived from a contractual claim to the asset and its potential income stream. Prepaid assets, real estate, and property and equipment are excluded from total assets on the statement of position to arrive of total financial assets for this note. For purposes of liquidity analysis, Note M begins with the financial assets from this schedule.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE F - INVESTMENT RETURN

The following is a summary of the investment return by investment category at December 31:

	<u>2017</u>	<u>2016</u>
<u>Pooled Investments</u>		
Investment income		
Domestic equities		
Interest and dividends	\$ 781,114	\$ 580,631
International equities		
Interest and dividends	1,289,233	961,848
Fixed income instruments		
Interest - bonds and cash accounts	120,005	390,547
Interest - church building loans	4,629,754	3,980,180
Bank charges and loan expenses	(476,395)	(386,182)
Alternative investments		
Interest and dividends	1,345,144	1,512,972
Net realized and unrealized gains (losses)		
Domestic equities	6,990,690	2,831,161
International equities	9,622,721	(2,903,967)
Fixed income investments	222,326	(56,398)
Alternative investments	<u>17,835,211</u>	<u>10,262,945</u>
Investment return for the year	<u>42,359,803</u>	<u>17,173,737</u>
<u>Other Investments - At Market</u>		
Investment income		
Corporate stocks and mutual funds		
Interest and dividends	153,387	240,398
Mineral interests	7,235,645	3,752,400
Net realized and unrealized gains (losses)		
Corporate stocks and mutual funds	348,157	145,932
Bonds	-	(151)
Limited partnerships	275,500	175,000
Mineral interests	<u>8,324,652</u>	<u>(1,343,345)</u>
Investment return for the year	<u>16,337,341</u>	<u>2,970,234</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE F - INVESTMENT RETURN - CONTINUED

	2017	2016
<u>Other Investments - At Contributed Value or Cost</u>		
Investment income		
Notes receivable		
Interest	\$ 9,183	\$ 37,356
Real estate	21,100	25,066
Cash and money market interest	1,486,162	5,784
Certificate of deposit and Term investment inter	950,552	6,136
Net realized and unrealized gains (losses)		
Real estate	(32,465)	(214,782)
Investment return for the year	<u>2,434,532</u>	<u>(140,440)</u>
Total investment return for the year	<u>\$ 61,131,676</u>	<u>\$ 20,003,531</u>

Investment return allocated to accounts that benefit the Foundation, included in the Statements of Activities and Changes in Net Assets, was \$8,545,953 and \$2,628,802 in 2017 and 2016, respectively. Investment return allocated to accounts that benefit clients of the Foundation, included in the Schedule of Changes in Liabilities to Beneficial Owners, was \$52,585,723 and \$17,374,729 in 2017 and 2016, respectively.

### NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2017	2016
Office furniture	\$ 304,170	\$ 332,066
Office equipment	163,190	178,159
Computer equipment	491,634	444,394
Computer software	683,759	663,128
Automobiles	272,488	201,637
Land	-	181,513
Buildings	-	351,603
Leasehold improvements	556,599	498,697
Capital additions suspense	89,714	3,270
	<u>2,561,554</u>	<u>2,854,467</u>
Less accumulated depreciation	<u>(1,708,755)</u>	<u>(1,598,529)</u>
	<u>\$ 852,799</u>	<u>\$ 1,255,938</u>

Depreciation expense totaled \$271,069 and \$220,808 at December 31, 2017 and 2016, respectively.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE H - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Foundation maintains a plan to provide health, life and termination benefits to retirees. Estimated costs are recognized over the employee's active service period. The plan, as originally adopted, provided health and life insurance premium coverage for all employees and spouses after ten years of service upon normal retirement. Subsequently, the plan was amended to increase the service period to 15 years and to limit coverage by excluding spouses. This amendment resulted in an unrecognized prior service benefit of \$139,328 and an unrecognized net gain of \$40,618. In 2005, the plan was further amended to eliminate all postretirement health care and life insurance benefits for current employees and life insurance benefits for most of the current retirees. A more complete explanation of this amendment is included below. The plan as adopted and amended is unfunded.

The Foundation accounts for its postretirement benefit obligations under ASC 715 and ASC 958, which require the funded status of its defined benefit pension and other postretirement plans be fully recognized in the statement of financial position and requires that plan assets and obligations be measured at the year-end statement of financial position date.

The following relates to the Foundation's postretirement plan which has measurement dates of December 31:

	2017	2016
Accumulated postretirement benefit obligations		
For retirees	\$ 217,759	\$ 258,843
For active employees not fully eligible	<u>187,038</u>	<u>152,673</u>
Funded status	404,797	411,516
Unrecognized net (loss) or gain	<u>68,064</u>	<u>62,546</u>
Accrued postretirement benefit cost	<u>\$ 472,861</u>	<u>\$ 474,062</u>

The change in accrued postretirement benefit cost at December 31, is as follows:

	2017	2016
Accrued postretirement benefit cost at beginning of year	\$ 474,062	\$ 498,857
Net postretirement benefit cost	19,470	25,469
Benefits paid	<u>(20,671)</u>	<u>(50,264)</u>
Accrued postretirement benefit cost at end of year	472,861	474,062
Net loss or (gain) and prior service benefit	<u>(68,064)</u>	<u>(62,546)</u>
Funded status	<u>\$ 404,797</u>	<u>\$ 411,516</u>

The change in unrecognized net (income) and prior service benefit of \$(5,518) and \$(35,444) for 2017 and 2016, respectively, has been recognized in the 2017 and 2016 Statements of Activities and Changes in Net Assets apart from expenses. There is no prior service cost for the plan that will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE H - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

The following assumptions were used in accounting for the plan at December 31:

	2017	2016
Weighted-average assumption used to determine benefit obligations at December 31,		
Discount rate	3.02%	3.28%
Life Expectancy of Inactive Participants	9.0 years	9.7 years
Assumed health care cost trend rates at December 31,		
Health care cost trend rate assumed for next year (medical/Rx)	3.60%/7.50%	4.30% / 9.90%
Rate to which the cost trend rate is assumed to decline, the ultimate trend rate (medical/Rx)	3.60%/5.25%	4.30% / 5.25%
Year that the rate reaches the ultimate trend rate	2025	2025

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2018	\$ 20,845
2019	20,805
2020	93,469
2021	38,996
2022	19,709
2023-2027	212,257

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was enacted. Among other features, the Act introduces a prescription drug benefit under Medicare Part D and a federal subsidy to sponsors of retiree health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The effects of this Act were considered in the actuarial valuation prepared by our outside actuary. Based on the actuary's analysis, the prescription benefit coverage provided to retirees under the plan through the Foundation's medical insurance provider, Guidestone Financial Resources, is at least actuarially equivalent to those provided by Medicare Part D. Therefore, for purposes of the actuarial valuation, it was assumed that the Foundation will pay reduced Medicare supplement premiums as a result of Guidestone receiving the benefits of subsidies.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE I - NOTES PAYABLE

During 2017 and 2016, the Foundation maintained an unused line of credit with Bank of Oklahoma in the amount of \$6,000,000. The Foundation has pledged an investment account that is held in custody at Bank of Oklahoma as collateral on this note with a fair value of approximately \$40,786,000 and \$26,656,000 at December 31, 2017 and 2016, respectively.

In 2017, the Foundation acquired financing from Bank of Oklahoma that was then used to fund the Convention loan discussed in Notes D and N. The outstanding principal balance of the note was \$2,491,994 at December 31, 2017. The note bears interest at 3.12% and has a maturity of November 20, 2022. Payments on this note are based on a 20 year amortization with all remaining interest and principal due upon maturity. The Foundation has pledged an investment account that is held in custody at Bank of Oklahoma as collateral on this note with a fair value of approximately \$5,040,000 at December 31, 2017. The Foundation is subject to various loan covenants and was in compliance with all covenants at December 31, 2017. Scheduled principal payments are as follows:

2018	\$	91,355
2019		94,288
2020		97,111
2021		100,430
2022		<u>2,108,810</u>
	\$	<u>2,491,994</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE J - LIABILITY TO BENEFICIAL OWNERS

The Foundation was formed to administer funds and receive property on behalf of the Convention and other Baptist institutions. In its capacity as trustee, administrator, custodian or agent, the Foundation holds assets for these organizations. In addition, the Foundation acts as trustee under revocable and irrevocable agreements in which donors have retained interest in income, principal or both.

The following summarizes categories of arrangements under which the Foundation has liabilities to these beneficial owners.

#### Liabilities to Income Beneficiaries under Split-Interest Agreements

Gift Annuity Contracts - These agreements have been entered into between the Foundation and a donor under which the Foundation has agreed to pay a specified amount, at least annually, to a non-charitable income beneficiary. Typically, income payments are for life. The liability to income beneficiaries represents a general liability of the Foundation. This liability is equal to the present value of estimated future payments. Obligations to make future payments are discounted at 5% which equals the estimated long-term return on investments. Those payments which are for life are estimated using 1999 unisex tables published by the Internal Revenue Service.

Irrevocable Trust Agreements - The balances represent the present value of estimated future payments to non-charitable beneficiaries under irrevocable trusts. This includes amounts estimated to be payable to beneficiaries of charitable remainder annuity trusts, charitable remainder unitrusts and other trusts whose remainder beneficiaries may be partially non-charitable. Obligations to make future payments are discounted at 5% which equals the estimated long-term return on investments. Those payments which are for life are estimated using 1999 unisex tables published by the Internal Revenue Service.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE J - LIABILITY TO BENEFICIAL OWNERS - CONTINUED

#### Assets Held For Others

Assets Held as Trustee under Permanent Endowments - The Foundation acts as trustee for numerous permanent charitable endowment trusts. These trusts generally benefit the Convention and its affiliates or other Southern Baptist affiliated institutions. Earnings from these funds are disbursed periodically under terms of the agreement or at the discretion of the beneficiary, based upon the Foundation's spending policy. While the Foundation will administer these assets in perpetuity, the rights to enjoyment of benefits are vested in the income beneficiaries.

Assets Held under Agreements with Affiliated Entities to Administer Endowments or Other Trust Funds - The Foundation holds, invests and administers assets under trust agreements that name the Convention or its affiliates as trustee. These trusts are administered in a manner identical to those trusts in which the Foundation is named trustee.

Remainder Interests under Gift Annuity Contracts and Irrevocable Trust Agreements - These balances represent the remainder interest in assets subject to payments to income beneficiaries as discussed above. Where agreements ultimately benefit the Foundation, remainder interests are included under temporarily restricted net assets.

#### Refundable Advances

Assets Held under Custodial Arrangements with Affiliated Entities - The Foundation holds and invests assets for the Convention and its affiliates in a custodial capacity. The balances represent the Foundation's liability to return amounts transferred and unremitted earnings to these affiliates. These funds are generally invested in the investment pools in ratios selected by the owner.

Conditional Transfers from Donors - The Foundation receives assets as trustee under agreements that are revocable or provide that trust corpus may be invaded for the benefit of the grantor or a non-charitable beneficiary. Because these assets may be withdrawn by revocation or through consumption by non-charitable beneficiaries, they are considered to be conditional transfers. To the extent the Foundation is an ultimate beneficiary under these agreements, a contribution will be recognized when all conditions are met, which is typically when the trust becomes irrevocable and the rights of non-charitable beneficiaries to corpus lapse.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE J - LIABILITY TO BENEFICIAL OWNERS - CONTINUED

The following is a summary of beneficial owners and their present interest in assets at December 31:

	2017	2016
Baptist General Convention of the State of Oklahoma	\$ 46,797,023	\$ 39,699,384
Oklahoma Baptist Homes for Children, Inc.	76,326,035	69,939,672
Oklahoma Baptist University	137,087,541	121,065,341
Baptist Village Retirement Communities of Oklahoma, Inc.	27,336,532	23,795,126
Baptist churches and institutions	93,242,603	78,161,764
Individuals and non-Baptist charities	34,740,136	29,795,920
	\$ 415,529,870	\$ 362,457,207

### NOTE K - BOARD DESIGNATIONS FOR UNRESTRICTED NET ASSETS

The Foundation's Board through specific action, created self-imposed designations on unrestricted net assets to protect against certain risks and provide funds for opportunities and expansion. The Board has earmarked \$5,783,970 for the following purposes as of December 31:

	2017
Funds functioning as endowment	\$ 554,128
Annuity reserve	673,142
Term investment reserve	1,000,000
Opportunity reserve	1,000,000
Operating reserve	2,556,700
	\$ 5,783,970

The Board has designated funds to function as endowment to provide, on an ongoing basis, a supplemental revenue source to fund operating expenses. These funds are subjected to investment and spending policies for endowments as more fully described in Note L. Annually funds are appropriated from this designated account to meet cash needs for general expenditure within one year.

The Foundation does not pool investments for gift annuities because each gift annuity contract has a different remainder beneficiary. Instead, assets for each gift annuity contract are invested and accounted for in separately managed accounts. Upon termination of each contract, the Foundation allocates all residual funds to the remainder beneficiary as prescribed in the contract. In the event assets in one of these separately managed accounts depletes during the lifespan of the gift annuity contract, the Foundation continues paying the obligation from its unrestricted net assets. The Board has designated funds for the satisfaction of this potential obligation.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE K - BOARD DESIGNATIONS FOR UNRESTRICTED NET ASSETS – CONTINUED

The purpose of the term investment reserve is to protect the Foundation against interest rate risk. In a market cycle with rapidly increasing interest rates the interest cost of the Foundation will increase more quickly than the interest income due to the term investments having a shorter average duration than loans. The Board has designated funds to support the Foundation's desire to offer competitively priced rates for term investments and church building loans in all market cycles.

The opportunity reserve provides funds for potential investments that expand the Foundation's ability to provide services.

The operating reserve provides funds to ensure the financial stability of the Foundation during times of economic stress. The Board has a desire to maintain financial assets in reserve to meet 180 days of normal operating expenses. While Board designated, these funds are intended to be made available for general expenditure, if necessary.

### NOTE L - ENDOWMENTS

The Foundation's endowments consist of individual funds established to provide financial support to the ministries served by the Foundation in perpetuity. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original fair value of gifts to 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE L - ENDOWMENTS - CONTINUED

The Foundation has adopted investment and spending policies for endowment assets designed 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 organization must hold in perpetuity or for a donor-specified period(s).

The Foundation uses a method based upon the total return on assets to determine the amounts distributable from endowments held as trustee and amounts appropriated for expenditure for endowments under which the Foundation is the income beneficiary in conformity with UPMIFA. To satisfy its long-term rate-of-return objectives, the Foundation seeks investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term return objectives within prudent risk constraints.

The spending or distribution policy as determined under a method adopted by the Board of Directors provides for the establishment of an "annual dividend". Effective January 1, 2010, the Board of Directors adopted an amended calculation method for the annual dividend which uses a weighted average formula based on 4.5% (the spending rate) of the average of the trailing 12 months Spending Policy Pool share prices and the prior year's dividend, adjusted for inflation using the Consumer Price Index. In January of each subsequent year, the Foundation will average the Spending Policy Pool unit values from the previous 12 months. The annual dividend is then calculated as 4.5% multiplied by that average (weighted 25%) and the prior year dividend multiplied by inflation (weighted 75%). This dividend per share must fall between 3% and 5% of the actual current year-end unit value. If it is greater than 5%, then it is capped at 5% of the current unit value. If it is less than 3%, then it is set at 3% of the current unit value. The dividend comes from any traditional income (bond interest and stock dividends) earned in that month and is supplemented from the Trust's net appreciation over the fair value of the original gift.

If an account has less market value than the original gift, the above described dividend formula does not apply and the distribution is limited to 3% of market value. The portion of the monthly dividend that is above 3% of the market value is reinvested and will not be added to the accumulation of funds for distribution.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE L - ENDOWMENTS - CONTINUED

In each month of the accumulating year, 1/12<sup>th</sup> of this dividend is paid and the dividends are invested in cash equivalents until the annual distribution is paid. The 2017 annual distribution, calculated as described above, was paid in January 2018.

Changes in endowment net assets for the fiscal years ending December 31, are described below:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ -	\$ 3,060,649	\$ 11,201,231	\$ 14,261,880
Investment return (loss):				
Investment income	-	772,247	-	772,247
Net appreciation (realized and unrealized)	-	3,358,321	-	3,358,321
Total investment return	-	4,130,568	-	4,130,568
Contributions	-	865	10,053	10,918
Other income	-	29	-	29
Net assets released from restriction	685,959	(685,959)	-	-
Expenses paid	(685,959)	-	-	(685,959)
Reclassification of endowment accounts due to account preservation	-	(5,130)	5,130	-
Reclassification of endowment accounts with total net asset balances less than the original gift	-	-	-	-
Endowment net assets at end of year	<u>\$ -</u>	<u>\$ 6,501,022</u>	<u>\$ 11,216,414</u>	<u>\$ 17,717,436</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ -	\$ 3,003,315	\$ 11,005,518	\$ 14,008,833
Investment return (loss):				
Investment income	-	335,900	-	335,900
Net appreciation (realized and unrealized)	-	488,587	-	488,587
Total investment return	-	824,487	-	824,487
Contributions	-	930	193,060	193,990
Other income	-	-	-	-
Net assets released from restriction	765,430	(765,430)	-	-
Expenses paid	(765,430)	-	-	(765,430)
Reclassification of endowment accounts due to account preservation	-	(2,653)	2,653	-
Reclassification of endowment accounts with total net asset balances less than the original gift	-	-	-	-
Endowment net assets at end of year	<u>\$ -</u>	<u>\$ 3,060,649</u>	<u>\$ 11,201,231</u>	<u>\$ 14,261,880</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE M – LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table reflects the Foundation's financial assets as of December 31, 2017, reduced by amounts not available for general use within one year either because of donor-imposed restrictions, illiquidity, or Board designation for a specific use.

	<u>2017</u>
Total financial assets	\$ 446,128,787
Amount unavailable for general expenditure in the next 12 months due to:	
Donor imposed restrictions	
Deposits held for clients	514
Liabilities for beneficial owners (\$415,529,870 less real estate of \$1,401,412)	414,128,458
Endowments (\$17,717,436 less funds appropriated for current use of \$538,367)	17,179,069
Contractual imposed restrictions	
Long-term operating receivables	10,000
Notes receivable from Convention	2,491,994
Accrued post retirement benefits	404,797
Participations sold	<u>4,441,758</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>7,472,197</u>
Amount unavailable to management without Board approval:	
Operating reserve	2,556,700
Fund functioning as endowment	554,128
Other Board designations	<u>2,673,142</u>
Financial assets available to meet cash needs for general expenditures within one year after Board designations	<u>\$ 1,688,227</u>
Operating cash and cash equivalents	\$ 439,207
Short-term operating receivables	7,414
Pooled investments	703,239
Endowment funds appropriated for current use	<u>538,367</u>
Financial assets available to meet cash needs for general expenditures within one year after Board designations	<u>\$ 1,688,227</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE M – LIQUIDITY AND AVAILABILITY OF RESOURCES – CONTINUED

As a part of the Foundations liquidity management, financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Foundation has committed to a line of credit of \$6,000,000, which it could draw upon.

In total, financial assets available to meet cash needs for general expenditures within one year, after board designations, at December 31, 2017 were \$1,688,227, which can cover 114 days of general expenditures, liabilities, and other obligations.

Cash and cash equivalents are currently available. Operating receivables have varying degrees of availability, but generally convert to cash within 30 days. Pooled investments are able to be liquidated at the end of each month once the Foundation completes the monthly valuation of its common funds. The appropriated endowment distribution is received in January 2018.

Additionally, the Foundation has Board designated funds that, while not intended to be spent on purposes other than those identified, could be made available, if necessary. Most notably, the Operating Reserve of \$2,556,700, which could cover 172 additional days, and the Fund Functioning as Endowment of \$554,128, which could cover 37 additional days, would be made available first. The remaining \$2,673,142 in other Board designated funds could then be made available, if necessary. Since the Board designated funds invest in internally managed common funds which each may contain investments with lock-up provisions, it is possible the total of Board designated funds that which could be made available would be reduced.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE N - AFFILIATED ENTITIES

The majority of the funds administered by the Foundation are for the benefit of the Convention, its affiliates, Baptist churches and associations and various other Baptist organizations. Principal affiliates of the Convention and, thus, the Foundation are Oklahoma Baptist University, Oklahoma Baptist Homes for Children, Inc., and Baptist Village Communities of Oklahoma, Inc. For this purpose, affiliates are those organizations whose directors or trustees are elected by the participating churches of the Convention at its annual meeting.

The Foundation receives appropriations from the Cooperative Program of the Convention. The appropriations received in 2017 and 2016 were \$25,000 and \$24,634, respectively.

As discussed in Note O, the Foundation has entered into an operating lease for office facilities with the Convention.

The Foundation makes loans to churches, associations and agencies affiliated with the Convention to finance the purchase of land and buildings. These loans are secured by first mortgages on the property and buildings constructed. The lives of these loans vary up to a maximum of 20 years. Interest rates are set by the Foundation Loan Services Committee with consideration given to the current rates available from commercial sources. The balance of church building loans outstanding was \$88,155,846 and \$93,236,024 at December 31, 2017 and 2016, respectively. An allowance of \$1,883,431 and \$1,883,431 for uncollectible loans was recorded at December 31, 2017 and 2016, respectively.

In 2017, the Foundation loaned the Convention \$2,500,000. The balance on the note receivable was \$2,491,994 at December 31, 2017. The terms on this note mirror the terms on the financing that the Foundation obtained from Bank of Oklahoma. Both the note payable and the note receivable bear interest at 3.12% and each has a maturity date of November 20, 2022. Payments on both notes are based on a 20 year amortization with all remaining interest and principal due upon maturity. The loan to the Convention is secured by a first mortgage position in the Baptist Building.

### NOTE O - LEASED FACILITIES

The Foundation conducts its operations in Oklahoma City from facilities leased from the Convention. This lease has a term of one year. Rental expense under this totaled \$183,190 and \$177,956 in 2017 and 2016, all of which was paid to the Convention. The future annual rental commitments reflect anticipated annual renewals through the expected lives of related leasehold improvements in 2027 and considers increases based upon escalating costs.

The minimum future annual rental commitments under these leases are as follows:

Period ending December 31:	
2018	\$ 196,053
2019	199,842
2020	203,706
2021	207,643
Thereafter	<u>1,570,347</u>
	<u>\$ 2,377,591</u>

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### **NOTE P - PENSION PLAN**

All employees of the Foundation are eligible to participate in a 403(b) defined contribution pension plan administered by the Guidestone Financial Resources of the Southern Baptist Convention. Under the plan, the Foundation contributes an amount equal to 10% of participating employees' salaries. In addition, the Foundation matches employee contributions up to a maximum of an additional 5%. The amount of the match an employee is eligible for is determined by the number of years of employment. Employee contributions are voluntary. Total pension expense was \$267,520 and \$261,155 at December 31, 2017 and 2016, respectively. The Foundation's policy is to fund pension cost as it is incurred.

### **NOTE Q - COMMITMENTS AND CONTINGENCIES**

The Foundation had outstanding church building loan commitments totaling approximately \$8,661,000 and \$6,127,000 at December 31, 2017 and 2016, respectively.

The Foundation had unfunded commitments to purchase units of alternative investments measured at NAV totaling approximately \$57,142,000 and \$72,501,000 at December 31, 2017 and 2016, respectively and unfunded commitments to purchase units of alternative investments measured by methods other than NAV of approximately \$59,000 at December 31, 2017. No unfunded commitments existed to purchase units of alternative investments measured by methods other than NAV at December 31, 2016.

The Foundation has extended a line of credit to the Convention in the amount of \$1,000,000. The line of credit was unused during 2017 and 2016.

From time to time, the Foundation may be involved in legal matters arising in the normal course of activities. In the opinion of management the ultimate liability, if any, with respect to these matters will not have a materially adverse effect on the financial position or activities of the Foundation.

The Foundation holds a variety of investments, the underlying securities of which are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investment securities would occur in the near term and that such change could materially affect the amounts reported in the financial statements.

# The Baptist Foundation of Oklahoma

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### **NOTE R - SUBSEQUENT EVENTS**

The Foundation had the following subsequent events through April 26, 2018, which is the date the financials were available to be issued, requiring recording or disclosure in the financial statements for the year ended December 31, 2017.

In January 2018, the Board voted to terminate the use of the MustardSeed app developed in 2016 and 2017. The app will wind down over the first six months of 2018. Upon final termination, the related computer software will be disposed of and a loss will be incurred. Net of accumulated depreciation, the asset was carried at approximately \$157,000.

In January 2018, a borrower in Indiana disbanded. This action began a default on their church building loan. Subsequently, the church voluntarily deeded their property to the Foundation. Upon sale of the property in February, a loss of approximately \$13,000 was realized. This loss was charged against the allowance for loan loss.

**SUPPLEMENTARY INFORMATION**

**The Baptist Foundation of Oklahoma**  
**SCHEDULES OF ASSETS HELD FOR BENEFICIAL OWNERS**  
December 31, 2017

	Assets held for others			Refundable advances		Total held for beneficial owners	Held for the benefit of the Foundation	Total
	As trustee under permanent endowments	Trusts administered for affiliates	As trustee of irrevocable agreements	Held for affiliates as custodian	Conditional transfers in trust			
Cash and cash equivalents	\$ (187,054)	\$ (3,702)	\$ 199,532	\$ 10,522	\$ 689,648	\$ 708,946	\$ 19,182,648	\$ 19,891,594
Enhanced Cash Fund	9,146,979	2,495,365	535,794	5,479,434	-	17,657,572	(17,657,572)	-
Institutional Cash Fund	-	-	5,963,399	31,389,448	-	37,352,847	(37,352,847)	-
Term investments	-	-	360,536	41,037,407	-	41,397,943	(41,397,943)	-
Certificates of deposit	-	-	-	-	100,271	100,271	4,274,216	4,374,487
Prepaid expenses and other	-	-	-	-	-	-	180,486	180,486
Investments								
Pooled investments - at market								
Domestic equities	31,729,491	11,005,618	6,216,597	8,219,842	416,539	57,588,087	3,664,300	61,252,387
International equities	35,339,051	12,395,059	3,647,432	8,387,176	184,945	59,953,663	4,154,341	64,108,004
Fixed income	16,153,291	5,905,715	7,027,173	4,542,829	186,013	33,815,021	73,862,393	107,677,414
Alternative investments	<u>90,237,917</u>	<u>31,631,476</u>	<u>2,003,646</u>	<u>14,181,726</u>	<u>-</u>	<u>138,054,765</u>	<u>9,861,131</u>	<u>147,915,896</u>
	<u>173,459,750</u>	<u>60,937,868</u>	<u>18,894,848</u>	<u>35,331,573</u>	<u>787,497</u>	<u>289,411,536</u>	<u>91,542,165</u>	<u>380,953,701</u>
Other investments								
At market								
Corporate stocks and mutual funds	255	32,910	802,765	51,031	1,287,223	2,174,184	4,565,180	6,739,364
Mineral interests	14,097,178	452,573	146,329	10,124,672	73,058	24,893,810	2,675,763	27,569,573
Limited partnerships	-	-	349,350	-	-	349,350	3,425,000	3,774,350
At contributed value or cost								
Notes receivable held in trust accounts	-	-	-	-	13,892	13,892	2,617,256	2,631,148
Real estate	298,889	-	495,744	-	606,779	1,401,412	-	1,401,412
Life and annuity contracts and other	<u>122,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,500</u>	<u>177,156</u>	<u>-</u>	<u>177,156</u>
	<u>14,518,978</u>	<u>485,483</u>	<u>1,794,188</u>	<u>10,175,703</u>	<u>2,035,452</u>	<u>29,009,804</u>	<u>13,283,199</u>	<u>42,293,003</u>
Total investments	187,978,728	61,423,351	20,689,036	45,507,276	2,822,949	318,421,340	104,825,364	423,246,704
Property and equipment, net	-	-	-	-	-	-	852,799	852,799
Total assets	196,938,653	63,915,014	27,748,297	123,424,087	3,612,868	415,638,919	32,907,151	448,546,070
Accounts payable and accrued	-	-	-	-	32,955	32,955	826,298	859,253
Notes payable	-	-	-	-	-	-	2,491,994	2,491,994
Liabilities for participation agreements	-	9,938	66,156	-	-	76,094	4,365,664	4,441,758
Net assets held for beneficial owners	196,938,653	63,905,076	27,682,141	123,424,087	3,579,913	415,529,870	25,223,195	440,753,065
Liability to income beneficiaries	-	-	4,942,521	-	-	4,942,521	-	4,942,521
Net assets held for beneficial owners of remainder interests	<u>\$ 196,938,653</u>	<u>\$ 63,905,076</u>	<u>\$ 22,739,620</u>	<u>\$ 123,424,087</u>	<u>\$ 3,579,913</u>	<u>\$ 410,587,349</u>	<u>\$ 25,223,195</u>	<u>\$ 435,810,544</u>

**The Baptist Foundation of Oklahoma**  
**SCHEDULES OF ASSETS HELD FOR BENEFICIAL OWNERS - CONTINUED**  
December 31, 2016

	Assets held for others			Refundable advances		Total held for beneficial owners	Held for the benefit of the Foundation	Total
	As trustee under permanent endowments	Trusts administered for affiliates	As trustee of irrevocable agreements	Held for affiliates as custodian	Conditional transfers in trust			
Cash and cash equivalents	\$ (498,836)	\$ (18,321)	\$ 273,858	\$ 253,198	\$ 953,541	\$ 963,440	\$ 13,598,764	\$ 14,562,204
Enhanced Cash Fund	7,163,675	2,079,072	259,766	3,867,036	-	13,369,549	(13,369,549)	-
Institutional Cash Fund	-	-	4,923,500	25,305,358	-	30,228,858	(30,228,858)	-
Term investments	-	-	584,134	35,562,956	-	36,147,090	(36,147,090)	-
Certificates of deposit	-	-	-	-	-	-	502,357	502,357
Prepaid expenses and other	-	-	-	-	-	-	150,855	150,855
Investments								
Pooled investments - at market								
Domestic equities	18,887,011	6,606,976	5,188,004	5,880,856	494,452	37,057,299	2,225,055	39,282,354
International equities	21,728,120	7,947,166	2,735,651	6,330,972	202,000	38,943,909	2,623,769	41,567,678
Fixed income	13,282,528	5,023,486	6,396,263	4,053,730	342,721	29,098,728	68,300,634	97,399,362
Alternative investments	<u>97,899,952</u>	<u>35,072,732</u>	<u>2,546,742</u>	<u>16,697,641</u>	<u>-</u>	<u>152,217,067</u>	<u>10,475,935</u>	<u>162,693,002</u>
	<u>151,797,611</u>	<u>54,650,360</u>	<u>16,866,660</u>	<u>32,963,199</u>	<u>1,039,173</u>	<u>257,317,003</u>	<u>83,625,393</u>	<u>340,942,396</u>
Other investments								
At market								
Corporate stocks and mutual funds	255	33,450	751,976	16,551	4,184,910	4,987,142	1,069,082	6,056,224
Mineral interests	8,766,752	690,505	181,840	8,676,921	20,871	18,336,889	908,022	19,244,911
Limited partnerships	-	-	323,850	-	-	323,850	3,175,000	3,498,850
At contributed value or cost								
Notes receivable held in trust accounts	-	-	-	2	14,614	14,616	213,981	228,597
Real estate	298,302	-	495,744	-	364,592	1,158,638	1	1,158,639
Life and annuity contracts and other	<u>115,460</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>54,500</u>	<u>169,962</u>	<u>-</u>	<u>169,962</u>
	<u>9,180,769</u>	<u>723,955</u>	<u>1,753,412</u>	<u>8,693,474</u>	<u>4,639,487</u>	<u>24,991,097</u>	<u>5,366,086</u>	<u>30,357,183</u>
Total investments	160,978,380	55,374,315	18,620,072	41,656,673	5,678,660	282,308,100	88,991,479	371,299,579
Property and equipment, net	-	-	-	-	-	-	1,255,938	1,255,938
Total assets	167,643,219	57,435,066	24,661,330	106,645,221	6,632,201	363,017,037	24,753,896	387,770,933
Accounts payable and accrued	-	-	-	-	100,320	100,320	837,549	937,869
Liabilities for participation agreements	<u>241,484</u>	<u>95,284</u>	<u>63,421</u>	<u>59,321</u>	<u>-</u>	<u>459,510</u>	<u>3,107,283</u>	<u>3,566,793</u>
Net assets held for beneficial owners	167,401,735	57,339,782	24,597,909	106,585,900	6,531,881	362,457,207	20,809,064	383,266,271
Liability to income beneficiaries	-	-	5,336,866	-	-	5,336,866	-	5,336,866
Net assets held for beneficial owners of remainder interests	<u>\$ 167,401,735</u>	<u>\$ 57,339,782</u>	<u>\$ 19,261,043</u>	<u>\$ 106,585,900</u>	<u>\$ 6,531,881</u>	<u>\$ 357,120,341</u>	<u>\$ 20,809,064</u>	<u>\$ 377,929,405</u>

**The Baptist Foundation of Oklahoma**  
**SCHEDULES OF CHANGES IN LIABILITIES TO BENEFICIAL OWNERS**  
Year ended December 31, 2017

	Assets held for others			Refundable advances		Total
	As trustee under permanent endowments	Trusts administered for affiliates	As trustee of irrevocable agreements	Held for affiliates as custodian	Conditional transfers in trust	
Liability to beneficial owners at beginning of year	\$ 167,401,735	\$ 57,339,782	\$ 24,597,909	\$ 106,585,900	\$ 6,531,881	\$ 362,457,207
Additions						
Investment earnings						
Interest and dividends from pools - net of fees	2,093,596	749,291	410,452	554,681	20,133	3,828,153
Earnings from non-pooled investments	3,694,574	206,755	351,494	4,786,284	66,021	9,105,128
Net realized and unrealized gains (losses) on investments	24,799,600	6,660,402	1,817,032	6,011,153	364,255	39,652,442
Other income	10,010		52	63	42,415	52,540
Amounts received as advances or contributions to principal	2,275,553	1,071,923	2,929,369	59,837,234	952,248	67,066,327
Transfers from existing agreements	<u>4,829,982</u>	<u>62,977</u>	<u>22,500</u>	<u>9,820,290</u>	<u>157,327</u>	<u>14,893,076</u>
	<u>37,703,315</u>	<u>8,751,348</u>	<u>5,530,899</u>	<u>81,009,705</u>	<u>1,602,399</u>	<u>134,597,666</u>
Reductions						
Distributions of						
Accumulated income or amounts specified by agreement	7,434,982	2,172,316	1,716,317	-	142,925	11,466,540
Amounts advanced or held as principal	-	-	-	54,211,849	-	54,211,849
Expenses incurred or paid on behalf of beneficial owners	222,789	13,701	228,711	218,518	269,819	953,538
Transfers to existing agreements	<u>508,626</u>	<u>37</u>	<u>501,639</u>	<u>9,741,151</u>	<u>4,141,623</u>	<u>14,893,076</u>
	<u>8,166,397</u>	<u>2,186,054</u>	<u>2,446,667</u>	<u>64,171,518</u>	<u>4,554,367</u>	<u>81,525,003</u>
Liability to beneficial owners at end of year	<u>\$ 196,938,653</u>	<u>\$ 63,905,076</u>	<u>\$ 27,682,141</u>	<u>\$ 123,424,087</u>	<u>\$ 3,579,913</u>	<u>\$ 415,529,870</u>

# The Baptist Foundation of Oklahoma

## SCHEDULES OF CHANGES IN LIABILITIES TO BENEFICIAL OWNERS - CONTINUED

Year ended December 31, 2016

	Assets held for others			Refundable advances		Total
	As trustee under permanent endowments	Trusts administered for affiliates	As trustee of irrevocable agreements	Held for affiliates as custodian	Conditional transfers in trust	
Liability to beneficial owners at beginning of year	\$ 163,462,284	\$ 55,547,618	\$ 24,104,567	\$ 99,036,480	\$ 7,436,863	\$ 349,587,812
Additions						
Investment earnings						
Interest and dividends from pools - net of fees	2,095,954	760,650	580,811	1,753,732	24,959	5,216,106
Earnings from non-pooled investments	1,763,968	86,835	102,697	2,479,871	90,528	4,523,899
Net realized and unrealized gains (losses) on investments	4,475,173	1,917,796	492,343	655,407	94,005	7,634,724
Other income	-	-	1,748	-	56,496	58,244
Amounts received as advances or contributions to principal	2,024,218	1,286,513	2,563,818	35,389,788	1,577,807	42,842,144
Transfers from existing agreements	2,501,135	99	9,841	2,293,293	-	4,804,368
	12,860,448	4,051,893	3,751,258	42,572,091	1,843,795	65,079,485
Reductions						
Distributions of						
Accumulated income or amounts specified by agreement	8,376,527	2,250,891	2,660,362	-	623,388	13,911,168
Amounts advanced or held as principal	-	-	-	32,443,772	-	32,443,772
Expenses incurred or paid on behalf of beneficial owners	121,123	8,231	278,275	378,899	264,254	1,050,782
Transfers to existing agreements	423,347	607	319,279	2,200,000	1,861,135	4,804,368
	8,920,997	2,259,729	3,257,916	35,022,671	2,748,777	52,210,090
Liability to beneficial owners at end of year	<u>\$ 167,401,735</u>	<u>\$ 57,339,782</u>	<u>\$ 24,597,909</u>	<u>\$ 106,585,900</u>	<u>\$ 6,531,881</u>	<u>\$ 362,457,207</u>

# The Baptist Foundation of Oklahoma

## SCHEDULES OF FUNCTIONAL EXPENSES

Year ended December 31, 2017

	Total	Program services	Management and general
Salaries	\$ 2,239,938	\$ 1,305,494	\$ 934,444
Employee benefits (including pension plan costs of \$267,520 and postretirement benefits other than pensions of \$19,470)	692,784	376,071	316,713
Continuing education, professional dues, and publications	51,175	22,375	28,800
Travel, meals, and lodging	95,237	48,274	46,963
Office materials, supplies, and printing	20,271	15,203	5,068
Postage and telephone	44,005	26,318	17,687
Office equipment, computer expenses, and maintenance	289,281	133,527	155,754
Insurance	90,174	45,373	44,801
Building rent	183,190	91,595	91,595
Legal fees	49,261	1,650	47,611
Legal fee reimbursements to donors	154,825	153,575	1,250
Accounting fees	159,165	-	159,165
Board expenses	61,616	-	61,616
Consultant and professional service fees	267,080	104,325	162,755
Communication and public relations	376,239	315,959	60,280
Depreciation	271,070	37,760	233,310
Interest expense - term investments	2,338,966	2,338,966	-
Interest expense - notes payable	6,067	6,067	-
Trust account fees	648,368	648,368	-
Miscellaneous expenses	65,410	3,364	62,046
Total expenses	8,104,122	5,674,264	2,429,858
Distributions to students, elderly, and charitable causes	455,333	455,333	-
Total expenses and distributions	\$ 8,559,455	\$ 6,129,597	\$ 2,429,858

**The Baptist Foundation of Oklahoma**  
**SCHEDULES OF FUNCTIONAL EXPENSES - CONTINUED**  
Year ended December 31, 2016

	<u>Total</u>	<u>Program services</u>	<u>Management and general</u>
Salaries	\$ 2,211,976	\$ 1,333,195	\$ 878,781
Employee benefits (including pension plan costs of \$261,155 and postretirement benefits other than pensions of \$25,469)	686,909	362,690	324,219
Continuing education, professional dues, and publications	79,525	55,809	23,716
Travel, meals, and lodging	113,494	53,322	60,172
Office materials, supplies, and printing	20,302	15,227	5,075
Postage and telephone	41,291	21,675	19,616
Office equipment, computer expenses, and maintenance	260,729	118,539	142,190
Insurance	80,355	40,498	39,857
Building rent	177,956	88,978	88,978
Legal fees	19,753	-	19,753
Legal fee reimbursements to donors	142,406	142,406	-
Accounting fees	147,683	-	147,683
Board expenses	59,297	-	59,297
Consultant and professional service fees	103,423	71,465	31,958
Communication and public relations	382,522	325,961	56,561
Depreciation	220,808	35,526	185,282
Interest expense - term investments	787,891	787,891	-
Trust account fees	314,971	314,971	-
Miscellaneous expenses	<u>28,633</u>	<u>12,103</u>	<u>16,530</u>
Total expenses	5,879,924	3,780,256	2,099,668
Distributions to students, elderly, and charitable causes	<u>460,478</u>	<u>460,478</u>	<u>-</u>
Total expenses and distributions	<u>\$ 6,340,402</u>	<u>\$ 4,240,734</u>	<u>\$ 2,099,668</u>