The Baptist Foundation of Oklahoma

Consolidated Financial Statements and Report of Independent Certified Public Accountants
December 31, 2018 and 2017

CONTENTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of matter

As discussed in Note A.2. to the consolidated financial statements, the Baptist Foundation of Oklahoma has adopted new accounting guidance in 2018 related to the accounting for financial statement presentation of not for profit entities. Our opinion is not modified with respect to this matter.

Grant Thornton LLP

Oklahoma City, Oklahoma
April 26, 2019

The Baptist Foundation of Oklahoma

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS	2018	2017 (as adjusted)
Cash and cash equivalents	**$ 24,828,795**	$ 19,891,594
Certificates of deposit	**1,300,896**	4,374,487
Prepaid expenses and other	**166,400**	180,486
Church building loans receivable, net	**100,088,056**	86,272,415
Accrued interest receivable	**241,003**	212,608
Investments		
Pooled investments	**273,048,457**	294,468,678
Other investments	**48,997,494**	42,293,003
Total investments	**322,045,951**	336,761,681
Property and equipment, net	**799,194**	852,799
	$ 449,470,295	$ 448,546,070
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	**$ 667,406**	$ 454,456
Accrued postretirement benefits	**374,512**	404,797
Liabilities for participation agreements	**5,601,551**	4,441,758
Long term debt	**2,400,639**	2,491,994
Notes payable	**50,351,261**	45,508,532
Liabilities to beneficial owners		
Liability to income beneficiaries under split-interest agreements	**4,971,958**	4,942,521
Assets held for others	**285,204,748**	283,583,349
Refundable advances	**73,688,118**	81,495,468
Total liabilities to beneficial owners	**363,864,824**	370,021,338
Commitments and contingencies (NOTE S)		
Net assets		
Without donor restrictions - undesignated	**3,120,883**	1,721,789
Without donor restrictions - board designated	**4,791,858**	5,783,970
With donor restrictions	**18,297,361**	17,717,436
	26,210,102	25,223,195
	$ 449,470,295	$ 448,546,070

The accompanying notes are an integral part of these statements.

The Baptist Foundation of Oklahoma

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years ended December 31,

	2018	2017 (as adjusted)
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net interest income		
Loans interest income, net	**$ 4,037,130**	$ 4,128,912
Notes payable interest expense	**(1,170,232)**	(1,070,632)
Total net interest income	**2,866,898**	3,058,280
Provision for loan losses	**(824,833)**	-
Revenues, gains and other support		
Fees for asset management and trust administration	**3,549,365**	3,626,357
Investment return, net	**906,332**	974,647
Other revenues and support		
Cooperative program allocation	**24,339**	25,000
Contributions	**54,969**	40,412
Other	**(149,516)**	56,470
Reclassification of net assets		
Appropriations from endowments	**1,051,044**	689,939
Total revenues, gains and other support	**5,436,533**	5,412,825
Expenses and distributions		
Program services		
Estate planning, trust, investment and lending services	**5,527,768**	4,643,467
Distributions to students, elderly and charitable causes	**787,369**	455,333
Management and general	**2,437,998**	2,429,858
Total expenses and distributions	**8,753,135**	7,528,658
Pension related changes other than net periodic pension costs	**31,851**	7,724
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**406,980**	950,171
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	**96,925**	10,918
Investment return, net	**1,536,479**	4,130,597
Other	**(2,433)**	12,384
Appropriations from endowments	**(1,051,044)**	(689,939)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	**579,927**	3,463,960
Change in total net assets	**986,907**	4,414,131
Net assets at beginning of year	**25,223,195**	20,809,064
Net assets at end of year	**$ 26,210,102**	$ 25,223,195

The accompanying notes are an integral part of these statements.

The Baptist Foundation of Oklahoma

CONSOLIDATED STATEMENT OF CASH FLOWS

December 31, 2018 and 2017

	2018	2017 (as adjusted)
Cash flows from operating activities		
Cash received as fees for asset management and trust administration	**$ 3,549,365**	$ 3,626,357
Interest received on church building loans receivable, net	**4,008,735**	4,133,118
Interest paid on notes payable	**(1,814,700)**	(797,978)
Interest, dividends and other investment income received	**2,136,573**	349,211
Cash received from donors and under Cooperative Program	**79,308**	61,147
Cash paid to employees, suppliers and to benefit recipients	**(5,610,754)**	(4,602,508)
Cash paid for interest	**(1,558,241)**	(2,345,032)
Cash received from other sources	**(151,949)**	68,854
Cash flows related to assets held for beneficial owners		
Cash received from or on behalf of beneficial owners	**42,344,591**	58,191,728
Earnings on assets held for beneficial owners	**12,176,051**	12,498,447
Distributions to or on behalf of beneficial owners	**(55,174,332)**	(66,631,892)
	(653,690)	4,058,283
Net cash provided by (used in) operating activities	**(15,353)**	4,551,452
Cash flows from investing activities		
Purchases of certificates of deposit	**(1,012,383)**	(5,500,000)
Sales of certificates of deposit	**5,234,524**	1,850,180
Purchases of units in investment pools	**(36,501,358)**	(42,818,651)
Sales of units in investment pools	**44,643,648**	33,051,267
Advances on notes receivable	**(32,000)**	(17,531)
Collections on notes receivable	**50,548**	106,974
Advances on church building loans receivable	**(26,418,764)**	(11,436,936)
Collections on church building loans receivable	**13,299,608**	16,517,114
Proceeds from sale of participation agreements	**1,670,000**	1,451,000
Payments to participation agreement owners	**(423,412)**	(576,035)
Purchases of other investments	**(10,447,164)**	(3,740,640)
Sales of other investments	**10,478,770**	4,184,409
Purchases of property and equipment	**(502,809)**	(339,930)
Sales of property and equipment	**125,581**	476,977
Net cash provided by (used in) investing activities	**164,789**	(6,791,802)
Cash flows from financing activities		
Proceeds from sale of notes payable	**64,754,176**	57,138,435
Withdrawal of maturing notes payable	**(60,063,336)**	(49,583,878)
Advances on notes receivable from Convention	**-**	(2,500,000)
Collections on notes receivable from Convention	**91,355**	8,006
Proceeds from long term debt	**-**	2,500,000
Payments on long term debt	**(91,355)**	(8,006)
Proceeds from contributions restricted for investment in endowments	**96,925**	15,183
Net cash provided by (used in) financing activities	**4,787,765**	7,569,740
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,937,201**	5,329,390
Cash and cash equivalents at beginning of year	**19,891,594**	14,562,204
Cash and cash equivalents at end of year	**$ 24,828,795**	$ 19,891,594

Non-cash activities:

Liabilities to beneficial owners include net realized and unrealized gains (losses) of ($8,093,027) and $40,117,510 for 2018 and 2017, non-cash receipts of other investments of $2,833,556 and $1,320,042 for 2018 and 2017, and non-cash disposals of other investments of $114,643 and $35 for 2018 and 2017.

The accompanying notes are an integral part of these statements.

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 a 501(c)(3) public charity.

The Foundation operates lending activities and sells depository notes (notes payable) under the trade names of WatersEdge Ministry Services and WatersEdge Advisors.

On May 1, 2018, the Foundation, through its tradename WatersEdge Advisors, formed a Church Extension Fund by completing an Offering Circular (Circular). The Circular was prepared in compliance with the North American Securities Administrators Association, Inc. (NASAA) Statement of Policy for offerings of securities. In this Circular, the Foundation offered notes payable in the aggregate principal amount of $150,000,000. The Foundation uses the proceeds from the sale of these notes payable to make church building loans to finance capital improvement projects. This Church Extension Fund Circular was filed for exemption with the state securities department in eleven states and was found to be self-exempt in six additional states. In doing so, the Foundation can sell both demand and term notes in seventeen states. As of December 31, 2018, the Foundation had notes payable in eleven states. Because of establishing of the Church Extension Fund in 2018, various reclassifications have been made on the Financial Statements and related notes.

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, 2018, 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.

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, 2018. All significant intercompany balances and transactions have been eliminated.

2. Recent Adoption of Accounting Pronouncements

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) removal of the reconciliation of changes in net assets to net cash provided by operating activities from the statement of cash flows (d) requiring the presentation of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and also disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding the liquidity and availability of resources, (f) presenting investment return net of investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The 2017 financial information has been adjusted to conform to with the current requirements.

3. Recognition of Donor Restrictions

Net assets without donor restrictions are currently available for operating purposes at the discretion of the Foundation's Board for use for its associated programs, for general expenditure, and for investment in property and equipment.

Net assets with donor restrictions include assets related to gifts with explicit donor-imposed restrictions that have not been met as to the specified purpose or expiration of the specified periods of time. Restricted assets reported herein combine permanent and temporary restrictions.

Net assets with donor restrictions include donor restrictions requiring the net asset be held in perpetuity while permitting an annual appropriation. These net assets held in perpetuity are referred to as endowments. The endowments consist of the original contribution amount as well as the net increases and decreases over the original contribution amount. These endowments either benefit the Foundation directly or do not benefit the Foundation. Net assets benefitting the Foundation are subject to appropriation for general needs and expenditures. Net assets that do not benefit the Foundation are subject to expenditure for a specific purpose for which the Foundation holds discretion on the distribution.

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

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.

4. 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. Some 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.

5. Church Building Loans Receivable, net

Church building loans are carried at the total principal balance of these loans net of 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 April 2046 and bear interest at rates ranging from 2.50% to 6.25%.

Church building loans 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 several 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.

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, 2018 and 2017.

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

6. 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. 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 alternative investments, is provided by brokers.

Alternative investments are primarily 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 several 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.

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.

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

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.

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 if 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.

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

11. Notes Payable

The Foundation sells demand and term notes under an Offering Circular. Notes payable are carried at the total principal balance plus an accrual for interest payable to note holders. Interest on notes payable is accrued based upon the principal amount outstanding. The Board of Directors (Board) approves the methodology used to establish interest rates so that the rates reflect market conditions. This interest rate methodology and the short-term duration of the notes 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. Notes payable mature at various dates through December 2023 and bear interest at rates ranging from 1.95% to 3.67%.

12. 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.

13. 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.

14. Endowment

The Foundation's endowment consists of individual funds established to provide financial support, in perpetuity, to the ministry of the Foundation. 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 endowment also includes funds without donor restrictions that have been designated by the Board to function as an endowment.

Interpretation of Relevant Law

The Foundation's Board of Directors has determined that the Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies to the Foundation's endowment funds. UPMIFA provides guidance and authority to charitable organizations concerning the management and investment of funds held by those organizations, and UPMIFA imposed additional duties on those who manage and invest charitable funds. These duties provide additional protections for charities and protect the interests of donors who want to see their contributions used wisely.

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

The Foundation classifies as net assets with donor restrictions the original value of the gifts donated to the donor restricted endowment and the original value of the subsequent gifts to the donor restricted endowment. Investment income from the donor restricted endowment is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the donor stipulated purpose with the standard of the prudence prescribed by UPMIFA.

Investment Policy Statement - Return objectives and risk parameters

The Foundation has adopted an investment policy for endowment assets designed to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the future purchasing power of the endowment assets. The fundamental investment objectives for the investments are to ensure safety and preservation of the principal, meet liquidity needs, and apply diversification appropriate for the investment pools to achieve optimal net investment returns subject to risk tolerance, investment pool objectives and policy constraints.

Investment Policy Statement - Strategies employed for achieving objectives

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.

Spending Policy Statement

In making expenditures from endowment funds, the Foundation first complies with any restriction or requirements in the gift instrument as to purpose and amount. Except as otherwise provided by the gift instrument, the Board considers all relevant considerations including but not limited to the long and short term needs of the Foundation in carrying out its purpose, expected total return on investments, and general economic conditions.

The spending or distribution policy as determined under a method adopted by the Board of Directors provides for the establishment of an "annual dividend". The calculation method for the annual dividend considers the prior year's dividend, adjusted for inflation using the Consumer Price Index within a specified range established by the Board.

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

Underwater Endowment Funds

The Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation complies with UPMIFA and has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law.

15. 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.

16. 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 2018 or 2017. 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 authorities for years prior to 2015 and Oklahoma state authorities for years prior to 2014. In addition, the Foundation had net operating loss carryforwards of approximately $2,980,000 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 material deferred income taxes at December 31, 2018 or 2017 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 a disregarded entity for income tax purposes. As a disregarded entity, it is exempt from federal and state income taxes except for amounts relating to unrelated business income, of which there was non for 2018 or 2017.

On December 22, 2017 tax reform legislation commonly known as the Tax Cuts and Jobs Act of 2017 (Act) was passed resulting in significant modifications to existing tax law. While there were no material effects on the Foundation financial statements as a result of the Act, management is evaluating the ongoing impact of the Act on the Foundation.

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

17. Functional Allocation of Expenses

The costs of providing various services, programs and supporting activities have been summarized on a functional basis in the consolidated statement of activities. Note N presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated amount the various functional areas based on individual cost drivers for each natural classification.

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

18. 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.

19. Reclassifications

Reclassifications of prior year comparative information have been made to conform to current year presentation. Church building loans have been reclassified from pooled investments. Notes payable have been reclassified from liabilities to beneficial owners. Loan interest income has been reclassified from investment return and notes payable interest expense has been reclassified from program expenses. These reclassifications, among others, had no effect on total net assets or the change in net assets.

20. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU primarily affects lessee accounting, which requires the lessee to recognize a right-of-use asset and a liability to make lease payments for those leases classified as operating leases under previous GAAP. For leases with a term of 12 months or less, an election by class of underlying asset not to recognize lease assets and lease liabilities is permitted. The ASU also provides additional guidance as to the definition of a lease, identification of lease components, and sale and leaseback transactions. The amendments in the ASU are effective for fiscal years beginning after December 15, 2019. The impact of the adoption of this ASU is currently being evaluated.

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

In May 2014, the FASB issued ASU No. 2014-09—Revenue from Contracts with Customers (Topic 606). The ASU supersedes revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance identifies specific steps that entities should apply to achieve this principle. The amendments are effective for annual reporting periods beginning after December 15, 2018 and must be applied retrospectively. The impact of the adoption of this ASU has been evaluated by the Foundation and any changes to the recognition of revenue will not be material.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires measurement and recognition of expected credit losses for financial assets held and holding an allowance equal to the expected life-of-loan losses on the loan portfolio. The standard is effective for fiscal periods beginning after December 15, 2020. The impact of the adoption of this ASU is currently being evaluated. However, the Foundation does not expect changes to the measurement of credit losses to be material.

NOTE B – CHURCH BUILDING LOANS RECEIVABLE, NET

The Foundation provides loans primarily to churches for church building projects. 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:

	2018	2017
Church building loans	$ 101,134,063	$ 88,155,846
Less allowance for loan losses	(1,046,007)	(1,883,431)
Net church building loans	$ 100,088,056	$ 86,272,415

The interest rate on each 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 following presents an aging analysis of the outstanding loans at December 31:

	Past Due Loans					
	30–90 Days	Over 90 Days	Total	Current Loans	Total Loans	Accruing Loans Over 90 Days Past Due
2018	$ -		$ -	$ 101,134,063	$ 101,134,063	$ -
2017	-	535,882	535,882	87,619,964	88,155,846	-

NOTE B – CHURCH BUILDING LOANS RECEIVABLE, NET - CONTINUED

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

	2018	2017
Allowance for loan losses:		
Summary of changes -		
Balance at beginning of year	$ 1,883,431	$ 1,883,431
Loans charged off	(12,591)	-
Provision for doubtful loans	(824,833)	-
Recoveries of amounts previously charged-off	-	-
Balance at end of year	$ 1,046,007	$ 1,883,431
Ending Balances -		
Individually evaluated for impairment	$ 294,582	$ 328,000
Collectively evaluated for impairment	751,425	1,555,431
	$ 1,046,007	$ 1,883,431
Loans:		
Ending Balances -		
Individually evaluated for impairment	$ 518,082	$ 1,782,630
Collectively evaluated for impairment	100,615,981	86,373,216
	$ 101,134,063	$ 88,155,846

The Foundation had one loan on nonaccrual status at December 31, 2018 and 2017. 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 $15,765 and $18,752 at December 31, 2018 and 2017, respectively.

The Foundation had one impaired loan with an unpaid principal balance of $518,082 and $535,882 at December 31, 2018 and 2017, respectively. The related allowance for loan losses was $294,582 and $328,000 at December 31, 2018 and 2017, respectively. 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 loan was further modified in 2013 and then again in 2016. 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 $25,569 and $26,996 would have been recorded in 2018 and 2017. The Foundation has not written off any principal or previously accrued interest because of either loan modification described above.

NOTE B – CHURCH BUILDING LOANS RECEIVABLE, NET - CONTINUED

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.

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, based on currently existing facts, conditions, and values, highly questionable and improbable.

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

	2018	2017
Pass	$ 100,615,981	$ 86,373,216
Special mention	-	1,246,748
Substandard-performing	-	-
Substandard-nonperforming	518,082	535,882
Doubtful	-	-
	$ 101,134,063	$ 88,155,846

NOTE C - 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 following is a summary of assets held in pooled investments at December 31:

	2018		
	Cost	Appreciation (depreciation)	Market
Domestic equities			
Cash	$ (2,875,179)	$ -	$ (2,875,179)
Accrued dividends	-	-	-
Money market accounts	424,645	-	424,645
Marketable equity securities	43,904,489	7,525,193	51,429,682
	41,453,955	7,525,193	48,979,148
International equities			
Cash	74,830	-	74,830
Money market accounts	305,763	-	305,763
Marketable equity securities	56,912,872	1,174,373	58,087,245
	57,293,465	1,174,373	58,467,838
Fixed income			
Cash	(48,880)	-	(48,880)
Money market accounts	125,432	-	125,432
Foreign debt securities	207,898	(6,419)	201,479
Corporate debt securities	3,322,263	(198,116)	3,124,147
U.S. Government securities	12,689,759	(171,379)	12,518,380
Short Term Investments	2,368,505	7,957	2,376,462
Accrued interest income	101,357	-	101,357
	18,766,334	(367,957)	18,398,377
Alternative investments			
Cash and money market accounts	2,735,775	-	2,735,775
Margin cash	5,580,624	-	5,580,624
Futures contracts (mark-to-market)	-	(927,838)	(927,838)
Structured settlements	3,141,650	179,346	3,320,996
Distressed debt	94,060	(37,611)	56,449
Distressed equity	27,304,480	4,044,080	31,348,560
Venture capital	8,446,099	6,446,229	14,892,328
Private equity	13,901,583	7,348,381	21,249,964
Real estate	16,920,163	1,572,600	18,492,763
Real assets	6,413,452	2,003,525	8,416,977
Developed markets hedge fund	1,534,089	(679,899)	854,190
Emerging markets hedge fund	8,250,206	751,953	9,002,159
Absolute return hedge fund	22,785,186	1,678,025	24,463,211
Direct lending	7,103,772	613,164	7,716,936
	124,211,139	22,991,955	147,203,094
Total pooled investments	$ 241,724,893	$ 31,323,564	$ 273,048,457

NOTE C - POOLED INVESTMENTS – CONTINUED

	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
	47,058,870	14,193,517	61,252,387
International equities			
Cash	(5,326)	-	(5,326)
Accrued dividends	-	-	-
Money market accounts	206,682	-	206,682
Marketable equity securities	50,279,181	13,627,467	63,906,648
	50,480,537	13,627,467	64,108,004
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
	21,815,508	(123,117)	21,692,391
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
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
Commodities hedge fund	-	-	-
Direct lending	7,463,729	128,592	7,592,321
	123,215,440	24,200,456	147,415,896
Total pooled investments	$ 242,570,355	$ 51,898,323	$ 294,468,678

NOTE C - 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) 2018	Fair Value (Determined Using NAV) 2017	Unfunded Commitments 2018	Redemption Frequency (if currently eligible)	Redemption Period
Structured settlements (a)	$ 3,320,996	$ 3,569,541	$ -	N/A	N/A
Distressed debt (b)	56,449	1,432,403	124,044	N/A	N/A
Distressed equity (c)	31,348,560	27,761,136	23,939,533	N/A	N/A
Venture capital (d)	14,131,849	10,553,107	5,614,131	N/A	N/A
Private equity (e)	21,249,964	17,250,895	16,142,793	N/A	N/A
Real estate (f)	14,934,815	11,944,304	18,500,820	N/A	N/A
Real assets (g)	8,416,977	7,932,111	3,420,724	N/A	N/A
Developed market hedge fund (h)	854,190	7,199,318	-	N/A	Full redemption requested
Emerging markets hedge fund (i)	9,002,159	10,600,365	-	Quarterly	65 days
Absolute return hedge fund (j)	24,463,211	25,711,721	-	Quarterly	45-65 days
Direct lending (k)	7,716,936	7,592,321	10,338,105	N/A	N/A
	$ 135,496,106	$ 131,547,222	$ 78,080,150		

(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.

(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.

NOTE C - POOLED INVESTMENTS - CONTINUED

Alternative Investments - Continued

(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. The Foundation received its entire investment in March 2019 for one additional investment.

(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 six investments, no redemptions are currently allowed. All six investments should return remaining capital within the next two years. Capital will be returned to investors as the underlying holdings are liquidated. Three other investments in this category can be redeemed quarterly based on stated partnership terms.

(k) This category includes investments in limited partnerships that provide comprehensive financing solutions. Redemption by the investor is not permitted.

NOTE C - POOLED INVESTMENTS – CONTINUED

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:

			2018		
	Open Contracts	Maturity Date	Notional Cost	Notional Fair Value	Futures Contracts (Mark-to-Market)
S&P 500 E-mini futures contracts	129	3/15/2019	$ 17,086,378	$ 16,158,540	$ (927,838)

			2017		
	Open Contracts	Maturity Date	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

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, 2018 the broker required margin of $851,400 and the Foundation had $4,652,786 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 Foundation had an unrealized mark-to-market gains/(losses) of ($927,838) and $243,405 on open futures contracts at December 31, 2018 and 2017, respectively. The realized and unrealized net gain or loss from futures contracts was ($1,049,493) and $4,402,683 for the years ending December 31, 2018 and 2017, respectively. The gain or loss 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 D - OTHER INVESTMENTS

The following summarizes other investments at December 31:

	2018		
	Cost or contributed value	Appreciation (depreciation)	Market value
At market			
Corporate stocks and mutual funds	$ 6,229,643	$ (140,748)	$ 6,088,895
Mineral interests	4,189,526	28,837,693	33,027,219
Limited partnerships	5,672,491	584,579	6,257,070
At contributed value or cost			
Note receivable from Convention	2,400,639	-	2,400,639
Notes receivable held in trust accounts	120,606	-	120,606
Real estate	918,753	-	918,753
Life insurance, annuity contracts, and other	184,312	-	184,312
Total	$ 19,715,970	$ 29,281,524	$ 48,997,494

	2017		
	Cost or contributed value	Appreciation (depreciation)	Market value
At market			
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
At contributed value or cost			
Note receivable from Convention	2,491,994	-	2,491,994
Notes receivable held in trust accounts	139,154	-	139,154
Real estate	1,401,412	-	1,401,412
Life insurance, annuity contracts, and other	177,156	-	177,156
Total	$ 18,391,212	$ 23,901,791	$ 42,293,003

The Limited Partnerships are primarily an investment in a single fund. The Foundation owned $5,850,320 and $3,425,000 of the fund at December 31, 2018 and 2017, respectively. A Donor Advised Fund managed by the Foundation owned $406,700 and $349,350 of the fund at December 31, 2018 and 2017, respectively. Neither of the two beneficiaries have an unfunded commitment. The general partner allows redemptions from the fund quarterly with 60 days written notice if cumulative requests from all limited partners does not exceed 1.25%.

NOTE D - OTHER INVESTMENTS – CONTINUED

In addition to church building loans receivable the Foundation also has one note receivable from the Convention, as explained in further detail in Note P, and several notes receivable held in trust accounts. The Foundation does not carry an allowance for loan losses for these notes receivable. The Foundation also does not record accrued interest on these loans, instead recognizing interest income when collected.

The note 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:

	2018	2017
Due in 1 year or less	$ -	$ -
Due after 1 year through 5 years	2,413,803	2,512,202
Due after 5 years	107,442	118,946
	$ 2,521,245	$ 2,631,148

Notes receivable held in trust accounts include trusts created to provide student loans. These loans were made in accordance with the terms of the trust document. Also, the Foundation manages a revocable trust which has provided a loan at the direct instruction of the trustor of the revocable trust.

The note receivable from the Convention and the notes receivable held in trust accounts are all current. Since none of these loans are past due, all are considered to be performing. Likewise, none are considered impaired and all are classified as "Pass".

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.

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.

The Baptist Foundation of Oklahoma

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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:

	2018			
		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)
Pooled Investments				
Domestic equities				
Cash and money market accounts	$ (2,450,534)	$ (2,450,534)	$ -	$ -
Basic materials	1,466,498	1,466,498	-	-
Consumer discretionary	5,481,457	5,481,457	-	-
Consumer staples	3,593,195	3,593,195	-	-
Energy	2,785,386	2,785,386	-	-
Financials	9,983,331	9,983,331	-	-
Health care	6,695,178	6,695,178	-	-
Industrials	5,575,679	5,575,679	-	-
Information technology	8,801,446	8,801,446	-	-
Telecommunications	4,930,355	4,930,355	-	-
Real Estate	30,681	30,681	-	-
Utilities	2,086,476	2,086,476	-	-
Total domestic equity	48,979,148	48,979,148	-	-
International equities				
Cash and money market accounts	380,593	380,593	-	-
Basic materials	3,568,380	3,568,380	-	-
Consumer discretionary	7,135,435	7,135,435	-	-
Consumer staples	5,962,632	5,962,632	-	-
Energy	4,281,640	4,281,640	-	-
Financials	14,419,836	14,419,836	-	-
Health care	3,159,465	3,159,465	-	-
Industrials	6,016,820	6,016,820	-	-
Information technology	6,586,197	6,586,197	-	-
Telecommunications	5,678,040	5,678,040	-	-
Utilities	1,278,800	1,278,800	-	-
Total international equity	58,467,838	58,467,838	-	-
Fixed income				
Cash and money market accounts	76,552	76,552	-	-
Foreign debt securities	201,479	-	201,479	-
Corporate debt securities	3,124,147	-	3,124,147	-
Short Term Investments	2,376,462	-	2,376,462	-
U.S. Government securities	12,518,380	12,518,380	-	-
Accrued interest income	101,357	101,357	-	-
Total fixed income	18,398,377	12,696,289	5,702,088	-

NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

Fair Value Measurements – Continued

	2018 - 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	$ 2,735,775	$ 2,735,775	$ -	$ -
Margin cash	4,652,786	4,652,786	-	-
Alternative investments	4,318,427	-	-	4,318,427
Alternative investments (measured at NAV)	135,496,106			
Total alternative investments	147,203,094	7,388,561	-	4,318,427
Total pooled investments	273,048,457	127,531,836	5,702,088	4,318,427
Other investments				
Corporate stocks and mutual funds	6,088,895	6,088,895	-	-
Mineral interests	33,027,219	-	-	33,027,219
Limited partnerships	6,257,070	-	-	6,257,070
Total other investments	45,373,184	6,088,895	-	39,284,289
Total asset instruments at fair value	$ 318,421,641	$ 133,620,731	$ 5,702,088	$ 43,602,716
Liabilities to beneficial owners				
Assets held for others	$ 285,204,748	$ -	$ -	$ 285,204,748
Refundable advances	73,688,118	-	-	73,688,118
Total liability instruments at fair value	$ 358,892,866	$ -	$ -	$ 358,892,866

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Beginning Balance	Reclassification to Level 3	Additional Investments	Distributions	Investment Return	Ending Balance
Asset instruments at fair value						
Alternative investments	$ 1,876,916	$ -	$ 2,455,541	$ (8,750)	$ (5,280)	$ 4,318,427
Mineral interests	27,569,573	-	-	-	5,457,646	33,027,219
Limited partnerships	3,774,350	-	2,348,641	(436,398)	570,477	6,257,070
	$ 33,220,839	$ -	$ 4,804,182	$ (445,148)	$ 6,022,843	$ 43,602,716
Liability instruments at fair value						
Assets held for others	$ 283,583,349	$ (29,437)	$ 13,853,968	$ (7,910,328)	$ (4,292,804)	$ 285,204,748
Refundable advances	81,495,468	-	31,324,179	(47,378,647)	8,247,118	73,688,118
	$ 365,078,817	$ (29,437)	$ 45,178,147	$ (55,288,975)	$ 3,954,314	$ 358,892,866

The Baptist Foundation of Oklahoma

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

Fair Value Measurements – Continued

	2017			
		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)
Pooled Investments				
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	2,174,666	2,174,666	-	-
Total domestic equity	61,252,387	61,252,387	-	-
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	1,134,534	1,134,534	-	-
Total international equity	64,108,004	64,108,004	-	-
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	-	-
Total fixed income	21,692,391	15,171,510	6,520,881	-

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 Other 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	-	-
Alternative investments	1,958,013	81,097	-	1,876,916
Alternative investments (measured at NAV)	131,547,222			
Total alternative investments	147,415,896	13,991,758	-	1,876,916
Total pooled investments	294,468,678	154,523,659	6,520,881	1,876,916
Other investments				
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 investments	38,083,287	6,739,364	-	31,343,923
Total asset instruments at fair value	$ 332,551,965	$ 161,263,023	$ 6,520,881	$ 33,220,839
Liabilities to beneficial owners				
Assets held for others	$ 283,583,349	$ -	$ -	$ 283,583,349
Refundable advances	81,495,468	-	-	81,495,468
Total liability instruments at fair value	$ 365,078,817	$ -	$ -	$ 365,078,817

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Beginning Balance	Reclassification to Level 3	Additional Investments	Distributions	Investment Return	Ending Balance
Asset instruments at fair value						
Alternative Investments	$ 640,373	$ -	$ 1,069,132	$ (41,205)	$ 208,616	$ 1,876,916
Mineral interests	19,244,911	-	42	(33)	8,324,653	27,569,573
Limited partnership	3,498,850	-	-	-	275,500	3,774,350
	$ 23,384,134	$ -	$ 1,069,174	$ (41,238)	$ 8,808,769	$ 33,220,839
Liability instruments at fair value						
Assets held for others	$ 244,002,560	$ 394,345	$ 11,192,304	$ (12,799,118)	$ 40,793,258	$ 283,583,349
Refundable advances	113,117,781	(45,508,532)	70,767,099	(68,725,885)	11,845,005	81,495,468
	$ 357,120,341	$ (45,114,187)	$ 81,959,403	$ (81,525,003)	$ 52,638,263	$ 365,078,817

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.

Church Building Loans Receivable

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.

Pooled Investments

Domestic and International Equities - Securities classified as domestic or international equities are reported at fair value using Level 1 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.

Alternative investments - Margin cash held for futures contracts are reported at fair value using Level 1 inputs found on active markets.

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 C.

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.

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, 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.

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

Assets Held for Others and Refundable Advances - These liabilities represent the beneficiary's 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.

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.

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

Notes Payable – Notes payable are carried at the total principal balance plus an accrual for interest payable. Since the interest rates are fixed dependent on terms selected by the borrower, but for no more than a maximum of five years, management believes that the carrying value of the notes payable, as described above, approximates market value.

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.

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.

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 24,828,795	$ 24,828,795	$ 19,891,594	$ 19,891,594
Certificates of deposit	1,300,896	1,300,896	4,374,487	4,374,487
Operating receivables	10,044	10,044	17,414	17,414
Church building loans receivable, net	100,088,056	100,088,056	86,272,415	86,272,415
Accrued interest receivable	241,003	241,003	212,608	212,608
Pooled investments	273,048,457	273,048,457	294,468,678	294,468,678
Other investments	48,078,741	48,078,741	40,891,591	40,891,591
Total financial assets	$ 447,595,992	$ 447,595,992	$ 446,128,787	$ 446,128,787
Financial liablitities				
Accounts payable and accrued expenses	$ 667,406	$ 667,406	$ 454,456	$ 454,456
Liabilities for participation agreements	5,601,551	5,601,551	4,441,758	4,441,758
Long term debt	2,400,639	2,400,639	2,491,994	2,491,994
Notes payable	50,351,261	50,351,261	45,508,532	45,508,532
Liabilities to beneficial owners				
Income beneficiaries under split-interst agreements	4,971,958	4,971,958	4,942,521	4,942,521
Assets held for others	285,204,748	285,204,748	283,583,349	283,583,349
Refundable advances	73,688,118	73,688,118	81,134,932	81,134,932
Total financial liabilities	$ 422,885,681	$ 422,885,681	$ 422,557,542	$ 422,557,542

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 O begins with the financial assets from this schedule.

NOTE F - INVESTMENT RETURN

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

	2018		
	Investment Return on Net Assets Without Donor Restrictions	Investment Return on Net Assets With Donor Restrictions	Investment Return on Liabilities to Beneficial Owners
Interest and dividends from investment pools	$ 98,607	$ 128,964	$ 3,842,895
Interest, dividends and other investment earnings	1,088,024	820,978	8,308,699
Net realized and unrealized gains (losses) on investments	(280,299)	586,537	(8,197,280)
	$ 906,332	$ 1,536,479	$ 3,954,314

	2017		
	Investment Return on Net Assets Without Donor Restrictions	Investment Return on Net Assets With Donor Restrictions	Investment Return on Liabilities to Beneficial Owners
Interest and dividends from investment pools	$ 80,210	$ 172,079	$ 3,880,693
Interest, dividends and other investment earnings	189,158	600,174	9,105,128
Net realized and unrealized gains (losses) on investments	705,279	3,358,344	39,652,442
	$ 974,647	$ 4,130,597	$ 52,638,263

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2018	2017
Office furniture	$ 265,067	$ 304,170
Office equipment	91,128	163,190
Computer equipment	218,331	491,634
Computer software	281,225	683,759
Automobiles	294,661	272,488
Leasehold improvements	340,100	556,599
Capital additions suspense	102,434	89,714
	1,592,946	2,561,554
Less accumulated depreciation	(793,752)	(1,708,755)
	$ 799,194	$ 852,799

Depreciation expense totaled $277,140 and $271,069 at December 31, 2018 and 2017, respectively.

The MustardSeed app in computer software had a net book value of $144,212 when it was written off in 2018. Consequently, a loss on disposal of asset was recorded. Also, during 2018, an inventory of fixed assets was taken. It was determined that several items were both obsolete and fully depreciated. As a result, these items were removed from both fixed assets and accumulated depreciation.

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:

	2018	2017
Accumulated postretirement benefit obligations		
For retirees	$ 215,790	$ 217,759
For active employees not fully eligible	158,722	187,038
Funded status	374,512	404,797
Unrecognized net (loss) or gain	97,430	68,064
Accrued postretirement benefit cost	$ 471,942	$ 472,861

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

	2018	2017
Accrued postretirement benefit cost at beginning of year	$ 472,861	$ 474,062
Net postretirement benefit cost	20,506	19,470
Benefits paid	(21,425)	(20,671)
Accrued postretirement benefit cost at end of year	471,942	472,861
Net loss or (gain) and prior service benefit	(97,430)	(68,064)
Funded status	$ 374,512	$ 404,797

The change in unrecognized net (income) and prior service benefit of $29,366 and $(5,518) for 2018 and 2017, respectively, has been recognized in the 2018 and 2017 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.

NOTE H - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

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

	2018	2017
Weighted-average assumption used to determine		
benefit obligations at December 31,		
Discount rate	3.86%	3.02%
Life Expectancy of Inactive Participants	14.2 years	9.0 years
Assumed health care cost trend rates at December 31,		
Health care cost trend rate assumed for next year (medical/Rx)	3.20% / 6.90%	3.60% / 7.50%
Rate to which the cost trend rate is assumed to		
decline, the ultimate trend rate (medical/Rx)	3.20% / 5.25%	3.60% / 5.25%
Year that the rate reaches the ultimate trend rate	2026	2025

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

2019	$ 23,714
2020	66,579
2021	22,888
2022	22,201
2023	21,328
2024-2028	218,889

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 because of Guidestone receiving the benefits of subsidies.

NOTE I – LONG TERM DEBT

During 2018 and 2017, 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 $36,565,000 and $40,786,000 at December 31, 2018 and 2017, respectively. The change in collateral value includes both market performance and net account activity made to rebalance the investment portfolio.

NOTE I – LONG TERM DEBT - CONTINUED

In 2017, the Foundation acquired financing from Bank of Oklahoma which was then used to fund the Convention loan discussed in Notes D and P. The outstanding principal balance of the debt was $2,400,639 and $2,491,994 at December 31, 2018 and 2017, respectively. The debt bears interest at 3.12% and has a maturity of November 20, 2022. Payments on this debt 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 debt with a fair value of approximately $3,655,000 and $5,040,000 December 31, 2018 and 2017, respectively. The change in collateral value includes both market performance and net account activity made to rebalance the investment portfolio. The Foundation is subject to various loan covenants and was following all covenants at December 31, 2018. Scheduled principal payments are as follows:

2019	$ 94,288
2020	97,111
2021	100,430
2022	2,108,810
	$ 2,400,639

NOTE J - NOTES PAYABLE

Through the Circular, the Foundation offered notes payable in the aggregate principal amount of $150,000,000. The following are presently offered Notes:

<u>Demand Notes</u> - Demand notes accrue interest at a rate that is adjusted monthly. Additions of principal and partial withdrawals are permitted at any time without any penalty. Interest is paid on the last day of each month.

<u>Term Notes</u> – Term notes accrue interest at a rate that remains fixed throughout its term. Available terms range from one month to five years. Interest is paid at maturity.

A summary of notes payable is as follows:

	2018	2017
Demand notes	$ 9,151,780	$ 4,471,125
Term notes	40,411,786	40,401,600
Accrued interest payable on term notes	787,695	635,807
	$ 50,351,261	$ 45,508,532

Scheduled maturities of term notes payable, as of December 31, 2018:

2019	$ 27,889,384
2020	8,421,738
2021	1,946,082
2022	1,450,225
2023	704,357
	$ 40,411,786

Per NASAA Statement of Policy, the Church Extension Fund must maintain cash, cash equivalents, readily marketable securities, and available lines of credit of at least 8% of the principal balance of its outstanding notes payable. As of December 31, 2018, the Foundation maintained $7,525,740 available under this criterion which represented 15.2% of the $49,563,566 principal balance of outstanding notes payable.

NOTE K - LIABILITY TO BENEFICIAL OWNERS

The Foundation was formed to administer funds and receive property on behalf of the its principal affiliates, Baptist churches and associations and various other Baptist organizations. 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.

	2018	2017
Liabilities to income beneficiaries under split-interest agreements		
Gift annuity contracts	$ 2,753,002	$ 2,677,586
Irrevocable trust agreements	2,218,956	2,264,935
	$ 4,971,958	$ 4,942,521
Assets held for others		
Assets held as trustee under permanent endowments	$ 191,615,953	$ 196,938,653
Assets held under agreements with affiliated entities to administer endowments or other trust funds	70,296,274	63,905,076
Remainder interests under gift annuity contracts, and irrevocable trust agreements	12,942,691	13,184,399
Donor advised funds	10,349,830	9,555,221
	$ 285,204,748	$ 283,583,349
Refundable Advances		
Assets held under custodial arrangements with affiliated entities	$ 70,436,159	$ 77,915,555
Conditional transfers from donors	3,251,959	3,579,913
	$ 73,688,118	$ 81,495,468

Liabilities to Income Beneficiaries under Split-Interest Agreements

Obligations to make future payments to income beneficiaries of split-interest agreements are discounted at 5% which equals the estimated long-term return on investments. Those payments which are for life are estimated using 1999 IRS unisex tables.

Gift Annuity Contracts - These agreements have been entered 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.

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.

NOTE K - 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 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 net assets with donor restrictions.

Donor Advised Funds

The Foundation holds, invests, and administers assets under donor advisement. Upon request of the donor, funds are granted to charitable beneficiaries. Where grants are made to benefit the Foundation, a contribution will be recognized when the funds are transferred.

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 balances 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.

NOTE L - BOARD DESIGNATIONS FOR NET ASSETS WITHOUT DONOR RESTRICTIONS

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 $4,791,209 and $5,783,970 for the following purposes as of December 31, 2018 and 2017, respectively as follows:

	2018	2017
Funds functioning as endowment	$ 520,180	$ 554,128
Annuity reserve	560,141	673,142
Term investment reserve	-	1,000,000
Opportunity reserve	1,000,000	1,000,000
Operating reserve	2,710,888	2,556,700
Endowment matching funds	649	-
	$ 4,791,858	$ 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 A and M. 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 purpose of the term investment reserve prior to the creation of the Church Extension Fund was to protect the Foundation against interest rate risk. During 2018, the Board removed the designation to make the funds available to be used to capitalize the Church Extension Fund.

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 M - 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 endowment funds also include funds without donor restrictions that have been designated by the Board to function as an endowment. Endowment net asset composition by type of fund is as follows:

	2018	2017
Board designated endowment funds	$ 520,181	$ 554,128
Donor restricted endowment funds		
Subject to expenditure for a specified purpose		
Student scholorships and other charitable causes	10,988,593	10,158,517
Subject to the appropriation (original gift amount of $5,578,519 and $5,484,630 as of 2018 and 2017, respectively) which once appropriated is available for general needs and expenses of the Foundation	7,308,768	7,558,919
Total endowment funds	$ 18,817,542	$ 18,271,564

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

2018	Without Donor Restrictions	With Donor Restrictions - for a Specified Purpose	With Donor Restrictions - Subject to Appropriation	Total With Donor Restrictions
Endowment assets at beginning of year	$ 554,128	$ 10,158,517	$ 7,558,919	$ 17,717,436
Contributions	-	-	96,925	96,925
Investment return	(12,981)	1,393,083	143,396	1,536,479
Other	-	956	(3,391)	(2,435)
Appropriations	(20,966)	(563,963)	(487,081)	(1,051,044)
Endowment assets at end of year	$ 520,181	$ 10,988,593	$ 7,308,768	$ 18,297,361

2017	Without Donor Restrictions	With Donor Restrictions - for a Specified Purpose	With Donor Restrictions - Subject to Appropriation	Total With Donor Restrictions
Endowment assets at beginning of year	$ 500,943	$ 7,200,686	$ 7,061,194	$ 14,261,880
Contributions	-	1,011	9,907	10,918
Investment return	67,716	3,293,626	836,971	4,130,597
Other	-	-	-	-
Appropriations	(14,531)	(336,806)	(349,153)	(685,959)
Endowment assets at end of year	$ 554,128	$ 10,158,517	$ 7,558,919	$ 17,717,436

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur after the investment of new contributions for donor restricted endowment funds. The Foundation had no underwater endowment funds as of December 31, 2018 and 2017.

NOTE N – EXPENSES BY BOTH FUNCTION AND NATURE

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, and salaries and benefits. Depreciation and occupancy are both allocated based on square footage, and salaries and benefits are allocated based on estimates of time and effort.

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

	2018		
	Total	Program services	Management and general
Salaries and benefits	$ 3,369,211	$ 2,109,413	$ 1,259,798
Business	829,694	408,270	421,424
Professional services	685,051	293,823	391,228
Marketing and communications	366,201	285,475	80,726
Depreciation	276,953	47,414	229,539
Interest expense	2,354,598	2,354,598	-
Miscellaneous	84,058	28,775	55,283
Total expenses	7,965,766	5,527,768	2,437,998
Distributions to students, elderly, and charitable causes	787,369	787,369	-
Total expenses and distributions	$ 8,753,135	$ 6,315,137	$ 2,437,998

	2017		
	Total	Program services	Management and general
Salaries and benefits	$ 2,983,898	$ 1,703,941	$ 1,279,957
Business	783,774	360,290	423,484
Professional services	630,332	259,550	370,782
Marketing and communications	376,239	315,959	60,280
Depreciation	271,069	37,760	233,309
Interest expense	1,962,604	1,962,604	-
Miscellaneous	65,409	3,363	62,046
Total expenses	7,073,325	4,643,467	2,429,858
Distributions to students, elderly, and charitable causes	455,333	455,333	-
Total expenses and distributions	$ 7,528,658	$ 5,098,800	$ 2,429,858

NOTE O – LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table reflects the Foundation's financial assets as of December 31, 2018, 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.

	Assets Without Donor Restrictions		Assets With Donor Restrictions	Assets Administered as Trustee, Custodian or Agent	Total
	Church Extension Fund	Trust Operations			
Total financial assets	$ 107,854,799	$ 7,857,003	$ 15,000,825	$ 316,883,365	$ 447,595,992
Amount unavailable for general expenditure in the next 12 months due to contractually imposed restrictions:					
Church Building Loans, net	100,088,056	-	-	-	100,088,056
Accrued interest receivable	241,003	-	-	-	241,003
Long-term receivables	-	7,100	-	-	7,100
Notes receivable from Convention	-	2,400,639	-	-	2,400,639
Financial assets contractually available to meet donor imposed restrictions and general expenditures within one year	7,525,740	5,449,264	15,000,825	316,883,365	344,859,194
Amount unavailable for general expenditure in the next 12 months due to donor imposed restrictions:					
Assets administered as trustee, custodian, or agent	-	1,354	-	316,883,365	316,884,719
Endowments ($18,297,361 less funds appropriated for current use of $326,938)	3,296,536	-	14,673,887	-	17,970,423
Financial assets available to meet cash needs for general expenditures within one year	4,229,204	5,447,910	326,938	-	10,004,052
Amount unavailable to management without Board approval:					-
Operating reserve	-	2,710,888	-	-	2,710,888
Fund functioning as endowment	-	520,181	-	-	520,181
Other Board designations	-	1,560,141	-	-	1,560,141
Financial assets available to meet cash needs for general expenditures within one year after Board designations	$ 4,229,204	$ 656,700	$ 326,938	$ -	$ 5,212,842

As a part of the Foundation's liquidity management, financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due. To accomplish this, the Foundation divides liquidity management into distinct segments as described below.

The Foundation maintains reasonable liquidity to meet the anticipated needs of the notes payable as demonstrated in Note J by meeting the minimum NASAA liquidity requirements.

NOTE O – LIQUIDITY AND AVAILABILITY OF RESOURCES – CONTINUED

The Foundation also manages trust operations liquidity to ensure financial assets are available to meet cash needs for general expenditures. The financial assets available from trust operations at December 31, 2018 can be supplemented by funds appropriated from net assets with donor restrictions. The Foundation will receive appropriations in the amount of $326,938 in 2019 from net assets with donor restrictions.

The Foundation manages investments for both itself under donor-imposed restrictions and for other beneficial owners. Investment of these assets follow investment and spending policies approved by the Board as well as prescribe to asset allocations approved by the Investment Committee of the Board. These asset allocations consider the liquidity needs of the portfolio, including but not limited to, investment managers calling uncommitted funds, annual endowment spending, and potential client redemption requests. The investment and spending policies are explained in further detail in Note A, while the investment allocation, and redemption restrictions are shown in Note C.

To help manage unanticipated liquidity needs, the Foundation has committed to a line of credit of $6,000,000, which it could draw upon. This line could allow the funding of committed capital or loan advances without requiring the sale of equities and bonds at deflated prices in a depressed economic environment. This line could also help fund operations in a crisis.

Financial assets available to meet cash needs for general expenditures within one year, after board designations, excluding those in the Church Extension Fund, at December 31, 2018 were $983,638, which can cover 60 days of general expenditures. These assets are comprised of cash and cash equivalents, short term receivables, and pooled investments.

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 $2,710,888, which could cover 166 additional days, and the Fund Functioning as Endowment of $520,181, which could cover 32 additional days, would be made available first. The remaining $1,560,141 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.

Cash and cash equivalents are currently available. Operating receivables have varying degrees of availability, but generally convert to cash within 30 days. Pooled investments can 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 2019.

NOTE P - AFFILIATED ENTITIES

Most of the funds administered by the Foundation are for the benefit of the Convention, its principal affiliates, Baptist churches and associations and various other Baptist organizations.

NOTE P - AFFILIATED ENTITIES - CONTINUED

The Foundation administers the following funds for the Convention and its affiliates in either a trustee or custodial capacity. Liabilities to affiliated entities were as follows at December 31, 2018 and 2017, respectively: the Convention, approximately $45,177,000 and $46,797,000, Oklahoma Baptist University, approximately $134,883,000 and $137,088,000, Oklahoma Baptist Homes for Children, Inc., approximately $73,841,000 and $76,326,000, and Baptist Village Communities of Oklahoma, Inc., approximately $27,511,000 and $27,337,000. 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 2018 and 2017 were $24,339 and $25,000, respectively. As discussed in Note Q, the Foundation has entered 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 $101,134,063 and $88,155,846 at December 31, 2018 and 2017, respectively. An allowance of $1,046,007 and $1,883,431 for uncollectible loans was recorded at December 31, 2018 and 2017, respectively.

In 2017, the Foundation loaned the Convention $2,500,000. The balance on the note receivable was $2,400,639 and $2,491,994 at December 31, 2018 and 2017, respectively. 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 Q - 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 $196,052 and $183,190 in 2018 and 2017, respectively 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 2023 and considers increases based upon escalating costs.

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

Period ending December 31:	
2019	$ 196,053
2020	199,572
2021	203,154
2022	206,801
Thereafter	642,943
	$ 1,448,523

NOTE R - 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 $283,238 and $267,520 at December 31, 2018 and 2017, respectively. The Foundation's policy is to fund pension cost as it is incurred.

NOTE S - COMMITMENTS AND CONTINGENCIES

The Foundation had outstanding church building loan receivable commitments totaling approximately $17,063,000 and $8,661,000 at December 31, 2018 and 2017, respectively.

The Foundation had unfunded commitments to purchase units of alternative investments measured at NAV totaling approximately $78,080,000 and $57,142,000 at December 31, 2018 and 2017, respectively and unfunded commitments to purchase units of alternative investments measured by methods other than NAV of approximately $569,000 and $59,000 at December 31, 2018 and 2017, respectively.

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 2018 and 2017.

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.

NOTE T - SUBSEQUENT EVENTS

The Foundation had no subsequent events through April 26, 2019, 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, 2018.