

AMERICAN BAPTIST FOUNDATION

***FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

DECEMBER 31, 2012 AND 2011

AMERICAN BAPTIST FOUNDATION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**To the Board of Directors
American Baptist Foundation
Valley Forge, Pennsylvania**

We have audited the accompanying statements of American Baptist Foundation (the “Foundation”) which comprise the statement of financial position as of December 31, 2012 and 2011, and the related 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**To the Board of Directors
American Baptist Foundation**

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplemental schedule of administrative revenues and expenses, on page 19, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
April 22, 2013**

AMERICAN BAPTIST FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2012 And 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 395,667	\$ 441,564
Interest and other receivables	<u>160,090</u>	<u>51,039</u>
Total current assets	<u>555,757</u>	<u>492,603</u>
NONCURRENT ASSETS		
Investments	37,182,050	29,135,194
Assets segregated for gift annuity obligations	5,851,763	5,946,744
Assets whose use is limited	63,688,581	59,168,712
Equipment, net of accumulated depreciation of \$671 for 2012	<u>3,781</u>	<u>-</u>
Total assets	<u>\$ 107,281,932</u>	<u>\$ 94,743,253</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 177,547	\$ 168,898
Actuarial reserve for gift annuity payments	<u>536,053</u>	<u>580,992</u>
Total current liabilities	<u>713,600</u>	<u>749,890</u>
NONCURRENT LIABILITIES		
Actuarial reserve for gift annuity payments	3,088,553	3,293,511
Beneficiaries' interest in charitable gift annuities	498,880	460,640
Funds of others – includes trust and endowment funds	<u>62,667,246</u>	<u>57,882,521</u>
Total noncurrent liabilities	<u>66,254,679</u>	<u>61,636,672</u>
NET ASSETS		
Unrestricted	3,857,183	2,722,323
Temporarily restricted	1,311,726	79,557
Permanently restricted	<u>35,144,744</u>	<u>29,554,811</u>
Total net assets	<u>40,313,653</u>	<u>32,356,691</u>
Total liabilities and net assets	<u>\$ 107,281,932</u>	<u>\$ 94,743,253</u>

AMERICAN BAPTIST FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2012 With Summarized Information For 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2012</u>	<u>2011</u>
Revenue, gains, and other support:					
Contributions	\$ 200,608	\$ 294,543	\$ 5,589,933	\$ 6,085,084	\$ 6,021,750
Operating subsidy from Baptist related organizations	410,800	-	-	410,800	434,661
Income from investments	199,363	1,772,951	-	1,972,314	1,721,052
Net realized and unrealized gain/(loss) on investments carried at fair value	1,081,551	435,638	-	1,517,189	(1,552,186)
Interest income	7,934	-	-	7,934	1,258
Management fees	491,067	-	-	491,067	459,036
Miscellaneous income	6,745	-	-	6,745	46,094
Service income	90,895	-	-	90,895	117,624
Change in value of split-interest agreements	<u>(460,987)</u>	<u>-</u>	<u>-</u>	<u>(460,987)</u>	<u>(299,853)</u>
Subtotal	2,027,976	2,503,132	5,589,933	10,121,041	6,949,436
Net assets released from restrictions	<u>1,270,963</u>	<u>(1,270,963)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	<u>3,298,939</u>	<u>1,232,169</u>	<u>5,589,933</u>	<u>10,121,041</u>	<u>6,949,436</u>
Expenses					
Administrative	743,503	-	-	743,503	704,486
Promotional fees	40,613	-	-	40,613	18,129
Distribution payments	<u>1,379,963</u>	<u>-</u>	<u>-</u>	<u>1,379,963</u>	<u>1,327,356</u>
Total Expenses	<u>2,164,079</u>	<u>-</u>	<u>-</u>	<u>2,164,079</u>	<u>2,049,971</u>
Changes in net assets	1,134,860	1,232,169	5,589,933	7,956,962	4,899,465
Net assets					
Beginning of year	<u>2,722,323</u>	<u>79,557</u>	<u>29,554,811</u>	<u>32,356,691</u>	<u>27,457,226</u>
End of year	<u>\$ 3,857,183</u>	<u>\$ 1,311,726</u>	<u>\$ 35,144,744</u>	<u>\$ 40,313,653</u>	<u>\$ 32,356,691</u>

AMERICAN BAPTIST FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS – (Continued)

For The Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>
Revenue, gains, and other support:				
Contributions	\$ 133,152	\$ 51,555	\$ 5,837,043	\$ 6,021,750
Operating subsidy from Baptist related organizations	434,661	-	-	434,661
Income from investments	681,462	1,039,590	-	1,721,052
Net realized and unrealized gains on investments carried at fair value	(1,131,041)	(421,145)	-	(1,552,186)
Interest income	1,258	-	-	1,258
Management fees	459,036	-	-	459,036
Miscellaneous income	46,094	-	-	46,094
Service income	117,624	-	-	117,624
Change in value of split-interest agreements	<u>(299,853)</u>	<u>-</u>	<u>-</u>	<u>(299,853)</u>
Subtotal	442,393	670,000	5,837,043	6,949,436
Net assets released from restrictions	<u>1,059,815</u>	<u>(1,059,815)</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	<u>1,502,208</u>	<u>(389,815)</u>	<u>5,837,043</u>	<u>6,949,436</u>
Expenses				
Administrative	704,486	-	-	704,486
Promotional fees	18,129	-	-	18,129
Distribution payments	<u>1,327,356</u>	<u>-</u>	<u>-</u>	<u>1,327,356</u>
Total Expenses	<u>2,049,971</u>	<u>-</u>	<u>-</u>	<u>2,049,971</u>
Changes in net assets	(547,763)	(389,815)	5,837,043	4,899,465
Net assets				
Beginning of year	<u>3,270,086</u>	<u>469,372</u>	<u>23,717,768</u>	<u>27,457,226</u>
End of year	<u>\$ 2,722,323</u>	<u>\$ 79,557</u>	<u>\$ 29,554,811</u>	<u>\$ 32,356,691</u>

AMERICAN BAPTIST FOUNDATION

STATEMENT OF CASH FLOWS

Years Ended December 31, 2012 And 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Total change in net assets	\$ 7,956,962	\$ 4,899,465
Adjustments to reconcile total change in net assets to net cash used by operating activities:		
Depreciation	671	-
Interest and dividends received from gift annuity contracts	(173,436)	(157,112)
Net realized and unrealized (gain)/loss on long-term investments	(1,517,189)	1,552,186
Change in value of split-interest agreements	460,987	299,853
Contributions restricted for endowment	(5,589,933)	(5,837,043)
Contributions restricted for charitable gift annuity	(145,590)	(55,481)
Changes in operating assets and liabilities		
Increase in interest and other receivables	(109,051)	(20,170)
Decrease in assets restricted for gift annuity obligations	94,981	373,446
(Increase) decrease in assets whose use is limited	(4,519,869)	1,428,628
Increase (decrease) in accounts payable and other current liabilities	8,649	(162,880)
Increase (decrease) in funds of others	<u>4,784,725</u>	<u>(2,714,819)</u>
Total adjustments	<u>(6,705,055)</u>	<u>(5,293,392)</u>
Net cash used for operating activities	<u>1,251,907</u>	<u>(393,927)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,452)	-
Proceeds from sale of investments	25,849,858	3,970,927
Purchases of investments	<u>(32,379,525)</u>	<u>(8,876,876)</u>
Net cash used for investing activities	<u>(6,534,119)</u>	<u>(4,905,949)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Endowments	5,589,933	5,837,043
Charitable gift annuity contracts and other long term agreements	273,137	174,674
Other financing activities:		
Distribution payments for gift annuity contracts	(800,191)	(821,921)
Interest and dividends received from gift annuity contracts	<u>173,436</u>	<u>157,112</u>
Net cash provided by financing activities	<u>5,236,315</u>	<u>5,346,908</u>
Net (decrease) increase in cash and cash equivalents	(45,897)	47,032
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>441,564</u>	<u>394,532</u>
End of year	<u>\$ 395,667</u>	<u>\$ 441,564</u>

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 And 2011

(1) BACKGROUND

The mission of the American Baptist Foundation (the “*Foundation*”) is to encourage support of the American Baptist ministry and its mission, primarily that done by the members of the Foundation through Charitable Estate Planning services for individuals and churches. Its mission also involves managing and providing investment services to American Baptist related organizations. The Foundation is a center through which planned gifts may be made in support of the American Baptist churches and related organizations around the world.

This cooperative effort, sponsored by its three American Baptist member organizations, demonstrates increased efficiency and strength by blending talent and resources within our family of faith. Serving throughout the United States, the Foundation representatives provide customized services including:

- Seminars on wills and estate planning
- Confidential counseling on personal estate plans
- Resources encouraging good stewardship through wills, endowments, and planned gifts
- Life income agreements to meet both individual income needs and mission support goals – these agreements include the Pooled Income Fund, Charitable Remainder Trusts, Charitable Gift Annuities, and Revocable Trusts

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Management has reviewed the tax positions for each of the open tax years (2009-2011) or expected to be taken in the Foundation’s 2012 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying financial statements of the Foundation have been prepared using the accrual basis of accounting.

NET ASSETS

For accounting and reporting purposes, the Foundation classifies its resources into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

Unrestricted Net Assets – include the revenues and expenses associated with the principal mission of the Foundation.

Temporarily Restricted Net Assets – include gifts for which restrictions have not been met. Temporarily restricted net assets are limited by donors for a specific purpose or specified period including term endowment funds.

Permanently Restricted Net Assets – include the Foundation’s permanent endowment funds.

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

The Foundation uses only interest and dividends to the extent of expenses incurred on investments of the permanently restricted net assets. The Foundation includes all excess dividends and interest and realized/unrealized gains/losses (**collectively, “net investment income”**) on investments of permanently restricted net assets in temporarily restricted net assets. When net investment income results in a cumulative loss, the loss is then charged to unrestricted net assets.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of amounts held in highly liquid securities with maturities of less than three months at the time of purchase and are stated at cost, which approximates fair value. Cash and cash equivalents that are segregated for gift annuity obligations or restricted by donors of trust agreements are included in “assets segregated for gift annuity obligations” and “assets whose use is limited,” respectively, in the Statement of Financial Position.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31, 2012 and 2011, and the reported amounts of revenues and expenses for the years then ended. Actual results may differ from those estimates.

INVESTMENTS

Investments, which include marketable securities, U.S. Government and fixed income securities, mutual funds, and other assets held for investment purposes are reported at fair value based upon quoted market prices or other valuation methodologies. Gains or losses on investments are recognized as revenues or expenses in the Statement of Activities. Accordingly, gains and losses are recorded in the net asset category where the investment income is recognized.

ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include assets received by the Foundation for the administration and management of revocable and irrevocable charitable remainder trusts and amounts received for various American Baptist related organizations and individuals for which the Foundation acts as custodian.

EQUIPMENT AND DEPRECIATION

Equipment is recorded at cost or, if donated, at fair value at the date of receipt. Depreciation of equipment is computed on a straight-line basis and is charged to expense over the estimated useful lives of the assets. Gains and losses on the disposition of assets are recognized as revenues and expenses in the Statement of Activities. Repair and maintenance costs are expensed when incurred, while betterments that extend the life of the assets are capitalized.

The Foundation reviews its assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

ASSETS SEGREGATED FOR GIFT ANNUITY OBLIGATIONS

Assets segregated for gift annuity obligations include assets received by the Foundation for administration and management of irrevocable charitable gift annuities, which the Foundation issues.

ACTUARIAL RESERVE FOR GIFT ANNUITY PAYMENTS

Charitable gift annuity agreements are issued in exchange for a payment that constitutes part charitable contribution and part purchase of an annuity, providing for payments to the stated annuitant(s) during their lifetime(s). These agreements represent a general obligation of the Foundation.

The method of calculating the gift annuity valuation reserve as reported in the financial statements was based on the IRS 1990 CM actuarial tables utilizing rates varying from 1.2% to 6.0% as an assumption for years ended December 31, 2012 and 2011.

CHANGE IN VALUE OF SPLIT-INTEREST AGREEMENTS

The life expectancy of annuitants and the interest rate assumption determine the actuarial obligations. Changes in the factors result in changes in the actuarial reserve for gift annuity payments. Changes related to agreements, in which the remainderman is other than the Foundation, are recorded as an increase or decrease in the beneficiaries' interest in charitable gift annuities in the Statement of Financial Position. Changes related to agreements for which the Foundation is the remainderman are recorded within the change in value of split-interest agreements in the Statement of Activities.

FUNDS OF OTHERS

Funds of others represent amounts due to the organizations under revocable and irrevocable charitable remainder trusts and custodian funds administered by the Foundation for American Baptist-related organizations, individuals, agencies and institutions. For the irrevocable charitable remainder trusts, funds of others includes both the obligation liability to the income beneficiaries and the residual payment due to others since the irrevocable trust agreements are principally for American Baptist related organizations.

CONTRIBUTIONS

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts-in-kind are recorded at fair value on the date of receipt.

RECLASSIFICATION

Certain account balances in the 2011 financial statements have been classified to conform to the 2012 presentation.

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(3) ASSETS WHOSE USE IS LIMITED

Assets whose use is limited are designated as follows:

	<u>2012</u>	<u>2011</u>
Custodian funds	\$ 36,916,069	\$ 33,384,231
Restricted Cash	2,813	17,999
Assets held under trust agreements	<u>26,769,699</u>	<u>25,766,482</u>
Total	<u>\$ 63,688,581</u>	<u>\$ 59,168,712</u>

(4) INVESTMENTS

Investments consist of the following:

	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents	\$ 2,000,220	\$ 2,126,532
Mutual Funds		
Bond	4,247,263	3,422,154
Stock	163,742	17,952
Bonds	8,928,694	6,830,836
Equities	21,686,178	16,592,027
Real Estate Investment Funds	49,019	44,093
Insurance – net single premium	<u>106,934</u>	<u>101,600</u>
Total	<u>\$ 37,182,050</u>	<u>\$ 29,135,194</u>

Investments consist principally of the Foundation's Permanently Restricted Net Assets ("Endowment Funds") and Donor-Advised Unrestricted Net Assets and are invested in the Foundation's Blended Portfolio, one of the Foundation's three different portfolios (Blended, Fixed Income and Stock portfolios). The target allocation of the Blended Portfolio is an allocation of 60% stock and 40% bonds. The target allocation may vary by plus or minus 15% in each category. Investments noted above include the applicable ownership percentage of the Blended portfolio.

Assets segregated for actuarial reserves (charitable gift annuities):

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 841,563	\$ 966,400
U.S. Government and fixed income securities	191,114	191,839
Mutual Funds		
Stock	50,333	53,040
Balanced	4,764,909	4,705,405
Other	<u>3,844</u>	<u>30,060</u>
Total	<u>\$ 5,851,763</u>	<u>\$ 5,946,744</u>

Certain states require investments to be segregated (reserves) for planned giving charitable gift annuity contracts. The general reserve follows the State of New York guidelines, which is the actuarial present value liability, plus 26.5%.

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

The 2012 reserve was calculated as follows:

Actuarial present value liability – General	\$ 3,624,606
26.5% additional reserves	<u>960,520</u>
Total Required Reserve	<u>\$ 4,585,126</u>

Assets whose use is limited consist of the following:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 2,140,907	\$ 2,634,045
Notes Receivable	442,881	415,956
Equity Securities	21,688,579	20,329,017
Mutual Funds		
Bond	5,780,274	7,916,748
Stock	12,546,204	11,302,629
Balanced	695,159	649,307
International	980,341	869,439
U.S. Government, Corporate and Municipal Bonds	18,561,099	14,214,764
Insurance – net single premium	647,500	635,000
Real Estate Investment Trust	195,195	190,200
Other	<u>10,442</u>	<u>11,607</u>
Total	<u>\$ 63,688,581</u>	<u>\$ 59,168,712</u>

Holders of the Custodian Funds (see Note 7) may select one or more of the three different portfolios of the Foundation for investment. Investments noted above include the applicable ownership percentage of the underlying investments of the Blended, Fixed Income, and Stock portfolios.

Notes receivable with rates ranging from 1.90% to 5.38% consist of investment notes issued by American Baptist Extension Corporation, an affiliate, totaling \$442,881 and \$415,956 as of December 31, 2012 and 2011, respectively.

As of December 31, 2012, assets whose use is limited includes \$1,018,520 of the Foundation's remainder interest in charitable remainder unitrusts.

At December 31, 2012 and 2011, investments in the Blended, Fixed Income, and Stock portfolios were \$67,844,330 and \$57,558,275; \$4,095,195 and \$3,497,635; and \$730,138 and \$640,700, respectively.

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(5) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation utilizes various methods to measure the fair value of most of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – Unadjusted quoted prices in active markets at the measurement date for identical assets and/or liabilities. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.

Level 2 – Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost benefit constraints.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For example, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities are reflected as Level 2.

	<u>2012</u>	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
<u>Investments</u>					
Cash and cash equivalents	\$ 2,000,220	\$ 2,000,220	\$ -	\$ -	\$ -
Mutual Funds					
Bond	4,247,263	4,247,263	-	-	-
Stock	163,742	163,742	-	-	-
U.S. Government and Fixed Income	8,928,694	3,565,894	5,362,800	-	-
Equities	21,686,178	21,686,178	-	-	-
Insurance – net single premium	106,934	-	-	-	106,934
Real Estate Investment Trust	49,019	49,019	-	-	-
	<u>\$ 37,182,050</u>	<u>\$ 31,712,316</u>	<u>\$ 5,362,800</u>	<u>\$ 106,934</u>	<u>\$ -</u>
<u>Assets Segregated For Gift Annuity Obligations</u>					
Cash and cash equivalents	\$ 841,563	\$ 841,563	\$ -	\$ -	\$ -
U.S. Government and Fixed Income Securities	191,114	-	191,114	-	-
Mutual Funds					
Stock	50,333	50,333	-	-	-
Balanced	4,764,909	4,764,909	-	-	-
Other	3,844	-	3,844	-	-
	<u>\$ 5,851,763</u>	<u>\$ 5,656,805</u>	<u>\$ 194,958</u>	<u>\$ -</u>	<u>\$ -</u>

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

<u>2012</u>	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
<u>Assets Whose Use Is Limited</u>				
Cash and cash equivalents	\$ 2,140,907	\$ 2,140,907	\$ -	\$ -
Notes Receivable	442,881	-	-	442,881
Equity Securities	21,688,579	21,668,579	-	-
Mutual Funds				
Bond	5,780,274	5,780,274	-	-
Stock	12,546,204	12,546,204	-	-
Balanced	695,159	695,159	-	-
International	980,341	980,341	-	-
U.S. Government and Fixed Income	18,561,099	5,726,263	12,834,836	-
Insurance – net single premium	647,500	-	-	647,500
Real Estate Investment Trust	195,195	195,195	-	-
Other	10,442	-	-	10,442
	<u>\$ 63,688,581</u>	<u>\$ 49,732,922</u>	<u>\$ 12,834,836</u>	<u>\$ 1,100,823</u>

<u>2011</u>	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
<u>Investments</u>				
Cash and cash equivalents	\$ 2,126,532	\$ 2,126,532	\$ -	\$ -
Mutual Funds				
Bond	3,422,154	3,422,154	-	-
Stock	17,952	17,952	-	-
U.S. Government and Fixed Income	6,830,836	1,195,617	5,635,219	-
Equities	16,592,027	16,592,027	-	-
Insurance – net single premium	101,600	-	-	101,600
Real Estate Investment Trust	44,093	44,093	-	-
	<u>\$ 29,135,194</u>	<u>\$ 23,398,375</u>	<u>\$ 5,635,219</u>	<u>\$ 101,600</u>

Assets Segregated For Gift Annuity Obligations

Cash and cash equivalents	\$ 966,400	\$ 966,400	\$ -	\$ -
U.S. Government and Fixed Income Securities	191,839	-	191,839	-
Mutual Funds				
Stock	53,040	53,040	-	-
Balanced	4,705,405	4,705,405	-	-
Other	30,060	-	30,060	-
	<u>\$ 5,946,744</u>	<u>\$ 5,724,845</u>	<u>\$ 221,899</u>	<u>\$ -</u>

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

<u>2011</u>	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
<u>Assets Whose Use Is Limited</u>				
Cash and cash equivalents	\$ 2,634,045	\$ 2,634,045	\$ -	\$ -
Notes Receivable	415,956	-	-	415,956
Equity Securities	20,329,017	20,329,017	-	-
Mutual Funds				
Bond	7,916,748	7,916,748	-	-
Stock	11,302,629	11,302,629	-	-
Balanced	649,307	649,307	-	-
International	869,439	869,439	-	-
U.S. Government and Fixed Income	14,214,764	4,830,556	9,384,208	-
Insurance – net single premium	635,000	-	-	635,000
Real Estate Investment Trust	190,200	190,200	-	-
Other	11,607	-	-	11,607
	<u>\$ 59,168,712</u>	<u>\$ 48,721,941</u>	<u>\$ 9,384,208</u>	<u>\$ 1,062,563</u>

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2012 or 2011.

The changes in investments measured at fair value for which the Foundation used Level 3 inputs to determine fair value are as follows:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 1,164,163	\$ 2,067,725
Purchases (sales) net	18,157	(834,400)
Realized and unrealized gains (losses), net	<u>25,437</u>	<u>(69,162)</u>
Balance, end of year	<u>\$ 1,207,757</u>	<u>\$ 1,164,163</u>

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(6) BENEFICIARIES' INTEREST IN CHARITABLE GIFT ANNUITIES

Changes in the Foundation's charitable gift annuities held on behalf of others for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Investment return:		
Interest income earned on investments	\$ 99,365	\$ 87,745
Realized gain on sale of investments	4,206	(1,053)
Unrealized gain on investments	221,429	31,570
Management and Trustee fees	(25,500)	(25,264)
Other expense	<u>(304)</u>	<u>(665)</u>
Total investment return*	299,196	92,333
Other changes in beneficiaries' interest in charitable gift annuities:		
Payments made to annuitants	(337,101)	(385,637)
Payments made to beneficiaries upon annuitants' deaths	(170,390)	(73,094)
Change in actuarial value of gift annuity obligation*	<u>246,535</u>	<u>174,666</u>
Net change in beneficiaries' interest in charitable gift annuities	38,240	(191,732)
Beneficiaries' interest in charitable gift annuities, beginning of year	<u>460,640</u>	<u>652,372</u>
Beneficiaries' interest in charitable gift annuities, end of year	<u>\$ 498,880</u>	<u>\$ 460,640</u>

* Amounts Reflected in the Statement of Activity

(7) FUNDS OF OTHERS

	<u>Balance December 31, 2011</u>	<u>New Agreements</u>	<u>Investment Income</u>	<u>Net Realized & Unrealized Gains/(Losses)</u>	<u>Redemption/ Distributions And Other Payments</u>	<u>Balance December 31, 2012</u>
Irrevocable Trusts*	\$ 21,094,424	\$ 582,199	\$ 634,928	\$ 2,133,198	\$(1,875,677)	\$ 22,569,072
Revocable Trusts	2,554,560	75,206	92,521	234,137	(124,037)	2,832,387
Custodial Funds						
Board of National Ministries	338,810	2,578	11,045	32,221	(34,934)	349,720
Ottawa University	376,664	20,000	7,274	47,775	(129,849)	321,864
Endowment	<u>33,518,063</u>	<u>2,409,953</u>	<u>1,893,378</u>	<u>1,162,188</u>	<u>(2,389,379)</u>	<u>36,594,203</u>
	<u>\$ 57,882,521</u>	<u>\$ 3,089,936</u>	<u>\$ 2,639,146</u>	<u>\$ 3,609,519</u>	<u>\$(4,553,876)</u>	<u>\$ 62,667,246</u>

* These amounts include both the obligation payable to the income beneficiaries and the residual payments due to other organizations.

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(8) NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Term endowment/other	\$ 361,910	\$ 79,557
Cumulative endowment earnings	<u>949,816</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$1,311,726</u>	<u>\$ 79,557</u>

Permanently restricted net assets at December 31, 2012 and 2011, respectively, are available for the following:

	<u>2012</u>	<u>2011</u>
Income unrestricted – income beneficiary distributions and operations	<u>\$35,144,744</u>	<u>\$29,554,811</u>

Endowment and donor advised net asset composition by type of fund as of December 31, 2012 and 2011:

	<u>2012</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$1,311,726	\$ 35,144,744	\$ 36,456,470
Funds functioning as endowment funds	3,414	-	-	3,414
Donor advised funds	<u>1,269,404</u>	<u>-</u>	<u>-</u>	<u>1,269,404</u>
	<u>\$ 1,272,818</u>	<u>\$1,311,726</u>	<u>\$ 35,144,744</u>	<u>\$ 37,729,288</u>

	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (621,797)	\$ 79,557	\$ 29,554,811	\$ 29,012,571
Funds functioning as endowment funds	3,119	-	-	3,119
Donor advised funds	<u>1,224,284</u>	<u>-</u>	<u>-</u>	<u>1,224,284</u>
	<u>\$ 605,606</u>	<u>\$ 79,557</u>	<u>\$ 29,554,811</u>	<u>\$ 30,239,974</u>

The Foundation classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as permanently restricted net assets. Cumulative net investment income which includes dividend and interest and realized and unrealized gains/losses on such gifts is classified as temporarily restricted until it is expended in accordance with state law and/or the donor restriction. Cumulative net investment losses are reflected in unrestricted net assets. The unrestricted endowment is reflected net of cumulative net investment losses of \$621,797 for the year ended December 31, 2011. There were no cumulative net investments losses as of December 31, 2012. The Foundation's board may also designate certain unrestricted gifts to function as endowment funds; such gifts are classified within unrestricted net assets as funds functioning as endowment funds.

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

Changes in endowment and donor advised net assets for the years ended December 31, 2012 and 2011:

	2012			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Net assets, beginning of year	\$ 605,606	\$ 79,557	\$ 29,554,811	\$ 30,239,974
Investment income	114,400	2,830,386	-	2,944,786
Recovery of endowment income deficit balances	621,797	(621,797)	-	-
Contributions and other	40,015	294,543	5,589,933	5,924,491
Amounts appropriated for expenditures	<u>(109,000)</u>	<u>(1,270,963)</u>	<u>-</u>	<u>(1,379,963)</u>
	<u>\$1,272,818</u>	<u>\$ 1,311,726</u>	<u>\$ 35,144,744</u>	<u>\$ 37,729,288</u>

	2011			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Net assets, beginning of year	\$1,452,915	\$ 469,372	\$ 23,717,768	\$ 25,640,055
Investment income	(10,680)	16,845	-	6,165
Deficit balances in endowment income	(601,600)	601,600	-	-
Contributions and other	32,512	51,555	5,837,043	5,921,110
Amounts appropriated for expenditures	<u>(267,541)</u>	<u>(1,059,815)</u>	<u>-</u>	<u>(1,327,356)</u>
	<u>\$ 605,606</u>	<u>\$ 79,557</u>	<u>\$ 29,554,811</u>	<u>\$ 30,239,974</u>

During the years ended December 31, 2012 and 2011, net assets were released from donor restrictions by satisfying the following restricted purposes:

	<u>2012</u>	<u>2011</u>
Income beneficiary distributions	<u>\$1,270,963</u>	<u>\$1,059,815</u>

(9) CREDIT RISK AND OTHER CONCENTRATIONS

The Foundation is required by Accounting Standards Codification (“ASC”) 825, “*Financial Instruments*” to disclose significant concentrations of credit risk regardless of the degree of such risk. As of December 31, 2012 and 2011, the Foundation maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation.

The Foundation has significant investments in insurance, notes receivable, stocks, bonds, and mutual funds and is therefore subject to normal risks inherent with investing activity. Investments made by investment managers engaged by the Foundation are monitored by the Foundation. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes that investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

As discussed in Note 10, approximately 31% and 24% (excluding net realized and unrealized gain/(loss) on investments from non-operating activities and change in value of split-interest agreements) of the Foundation’s unrestricted revenues, gains, and other support were provided by the operating subsidy agreement for the years ended December 31, 2012 and 2011, respectively.

AMERICAN BAPTIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(10) OPERATING SUBSIDY

Under an operating agreement, all the expenses of the Foundation in excess of revenues are reimbursed by related members of the Foundation according to an agreed-upon formula. The related members include the American Baptist Foreign Mission Society, the American Baptist Home Mission Societies, and the American Baptist Multi-Region Corporation. The amount subsidized by the related members was \$410,800 and \$434,661 for 2012 and 2011, respectively.

(11) PENSION

Substantially all of the Foundation's employees are covered by the American Baptist Churches' Retirement Plan. The Foundation's pension expense related to contributions to this defined contribution plan was \$51,485 and \$47,070 in 2012 and 2011, respectively.

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 22, 2013, the date which the financial statements were available to be issued. There were no material subsequent events required to be disclosed.

SUPPLEMENTAL INFORMATION

AMERICAN BAPTIST FOUNDATION

SUPPLEMENTAL SCHEDULE OF ADMINISTRATIVE REVENUES AND EXPENSES

December 31, 2012 And 2011

	<u>2012</u>			<u>2011</u>
	<u>Marketing</u>	<u>Administration</u>	<u>Total</u>	<u>Total</u>
Revenues, gains and other support:				
Operating subsidy from Baptist related organizations	\$ 410,800	\$ -	\$ 410,800	\$ 434,661
Service income	-	90,895	90,895	117,624
Management fees	-	491,067	491,067	459,036
Income from investments, net of unrealized loss	-	30,451	30,451	(2,069)
Grant Awards	-	21,500	21,500	3,942
Miscellaneous income	-	247	247	46,094
Total revenues, gains and other support	<u>410,800</u>	<u>634,160</u>	<u>1,044,960</u>	<u>1,059,288</u>
Administrative and promotional expenses:				
Salaries and fringe benefits	90,007	360,157	450,164	405,324
Staff support	17,779	34,332	52,111	62,815
Promotional support	57,540	-	57,540	43,488
Office and computer support	-	117,193	117,193	104,610
Contracted services within American Baptist Churches	-	29,197	29,197	24,077
Contracted services-external	-	41,087	41,087	42,589
Insurance	-	20,338	20,338	25,609
Board of Directors	-	14,827	14,827	11,107
Miscellaneous expenses	-	1,659	1,659	2,996
Total expenses	<u>165,326</u>	<u>618,790</u>	<u>784,116</u>	<u>722,615</u>
Increase (decrease) in unrestricted net assets	<u>245,474</u>	<u>15,370</u>	<u>260,844</u>	<u>336,673</u>
Total	<u>\$ 410,800</u>	<u>\$ 634,160</u>	<u>\$ 1,044,960</u>	<u>\$ 1,059,288</u>

The above schedule includes amounts reported in the unrestricted column of the Statement of Activities and Changes in Net Assets that represent the Foundation's operational revenues and expenses. These amounts exclude all activities related to endowment, trust and annuity gifts that are also reported in the unrestricted column of the Statement of Activities and Changes in Net Assets.