

# **AMERICAN BAPTIST HOME MISSION SOCIETIES**

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

**DECEMBER 31, 2018 AND 2017**

# AMERICAN BAPTIST HOME MISSION SOCIETIES

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

### **To the Board of American Baptist Home Mission Societies Valley Forge, Pennsylvania**

We have audited the accompanying combined financial statements of the American Baptist Home Mission Societies (the “Societies”), which comprise the combined statements of financial position as of December 31, 2018 and 2017, and the related combined statements of activities and changes in net assets, functional expenses, 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 combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors’ Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose for 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.

**To the Board of American Baptist Home Mission Societies**  
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***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Societies as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental information on pages 27 through 29 are presented for purposes of additional analysis and are not a required part of the 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**  
**June 6, 2019**

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,244,009	\$ 4,362,735
Assets held for others, current	1,323,043	1,678,996
Receivables, net (Publishing)	71,619	180,510
Receivables due from Baptist related organizations, net – current	178,805	1,027,555
Mortgage loans receivable, net – current	69,498	74,083
Interest receivable	4,255	5,017
Inventory (Publishing)	661,355	653,604
Prepaid expenses and other assets	229,232	378,286
Property held for investment purposes	6,355,253	-
<b>Total Current Assets</b>	<u>13,137,069</u>	<u>8,360,786</u>
<b>NONCURRENT ASSETS</b>		
Receivables due from Baptist related organizations, net – noncurrent	774,406	817,625
Mortgage loans receivable, net – noncurrent	1,131,581	1,269,869
Investments	158,278,654	180,519,887
Investment in limited liability company	94,365	6,264
Assets restricted for annuity obligations	825,169	894,950
Assets held for others, noncurrent	48,890,099	53,392,376
Property and equipment, net	15,115,316	14,305,987
<b>Total Assets</b>	<u>\$ 238,246,659</u>	<u>\$ 259,567,744</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 859,948	\$ 602,451
Equity note payable, current	105,743	98,614
Accrued expenses	565,401	629,622
Allowance for sales returns (Publishing)	286,596	297,101
Funds held for others, current	1,323,043	1,678,996
<b>Total Current Liabilities</b>	<u>3,140,731</u>	<u>3,306,784</u>
<b>NONCURRENT LIABILITIES</b>		
Actuarial liability for annuity obligations	42,636	41,522
Equity note payable, noncurrent	2,672,174	2,777,917
Funds held for others, noncurrent	48,890,099	53,392,376
	<u>54,745,640</u>	<u>59,518,599</u>
<b>NET ASSETS</b>		
Without donor restrictions	45,535,433	48,771,408
With donor restrictions	137,965,586	151,277,737
<b>Total Net Assets</b>	<u>183,501,019</u>	<u>200,049,145</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 238,246,659</u>	<u>\$ 259,567,744</u>

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2018 (with comparative 2017 totals)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
<b>Revenues and Gains</b>				
Contributions:				
United Mission	\$ 328,880	\$ -	\$ 328,880	\$ 365,904
America for Christ Offering	672,213	-	672,213	759,380
One Great Hour of Sharing	-	994,141	994,141	2,174,392
Other contributions	185,230	370,974	556,204	248,763
Other investment income	1,103,387	906,069	2,009,456	1,699,045
Mortgage interest income	79,624	-	79,624	94,153
Net realized gains on sale of investments	9,432,594	7,152,620	16,585,214	13,398,032
Legacies, terminated trusts and trust fund income	316,470	64,811	381,281	466,857
Publishing sales, net of cost of goods sold of \$587,120 and \$484,941, respectively	526,508	-	526,508	684,961
Net assets released from restrictions:				
Satisfaction of program restrictions	1,817,037	(1,817,037)	-	-
<b>Total Revenues and Gains</b>	<b>14,461,943</b>	<b>7,671,578</b>	<b>22,133,521</b>	<b>19,891,487</b>
<b>Expenses</b>				
<b>Program Expenses</b>				
Mission Services	8,662,163	-	8,662,163	8,068,544
Publishing Ministry	1,341,564	-	1,341,564	1,313,893
<b>Total Program Expenses</b>	<b>10,003,727</b>	<b>-</b>	<b>10,003,727</b>	<b>9,382,437</b>
<b>Supporting Services</b>				
Management and general	2,106,222	-	2,106,222	2,283,102
Fundraising	474,609	-	474,609	440,482
<b>Total Expenses</b>	<b>12,584,558</b>	<b>-</b>	<b>12,584,558</b>	<b>12,106,021</b>
<b>Income from operations</b>	<b>1,877,385</b>	<b>7,671,578</b>	<b>9,548,963</b>	<b>7,785,466</b>
<b>Other Changes</b>				
Net unrealized gains (losses)	(5,076,961)	(20,982,615)	(26,059,576)	10,543,521
Change in beneficial interest in annuities	(36,399)	-	(36,399)	22,053
Actuarial change on annuity obligations	-	(1,114)	(1,114)	2,946
<b>Total Other Changes</b>	<b>(5,113,360)</b>	<b>(20,983,729)</b>	<b>(26,097,089)</b>	<b>10,568,520</b>
<b>Change in Net Assets</b>	<b>(3,235,975)</b>	<b>(13,312,151)</b>	<b>(16,548,126)</b>	<b>18,353,986</b>
<b>Net Assets at beginning of year</b>	<b>48,771,408</b>	<b>151,277,737</b>	<b>200,049,145</b>	<b>181,695,159</b>
<b>Net Assets at end of year</b>	<b>\$ 45,535,433</b>	<b>\$ 137,965,586</b>	<b>\$ 183,501,019</b>	<b>\$ 200,049,145</b>

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2017 Total
<b>Revenues and Gains</b>			
Contributions:			
United Mission	\$ 365,904	\$ -	\$ 365,904
America for Christ Offering	759,380	-	759,380
One Great Hour of Sharing	-	2,174,392	2,174,392
Other contributions	102,948	145,815	248,763
Other investment income	794,260	904,785	1,699,045
Mortgage interest income	94,153	-	94,153
Net realized gains on sale of investments	8,716,603	4,681,429	13,398,032
Legacies, terminated trusts and trust fund income	466,857	-	466,857
Publishing sales, net of cost of goods sold of \$484,941	684,961	-	684,961
Net assets released from restrictions:			
Satisfaction of program restrictions	1,580,747	(1,580,747)	-
<b>Total Revenues and Gains</b>	<b>13,565,813</b>	<b>6,325,674</b>	<b>19,891,487</b>
<b>Expenses</b>			
<b>Program Expenses</b>			
Mission Services	8,068,544	-	8,068,544
Publishing Ministry	1,313,893	-	1,313,893
<b>Total Program Expenses</b>	<b>9,382,437</b>	<b>-</b>	<b>9,382,437</b>
<b>Supporting Services</b>			
Management and general	2,283,102	-	2,283,102
Fundraising	440,482	-	440,482
<b>Total Expenses</b>	<b>12,106,021</b>	<b>-</b>	<b>12,106,021</b>
<b>Income from operations</b>	<b>1,459,792</b>	<b>6,325,674</b>	<b>7,785,466</b>
<b>Other Changes</b>			
Net unrealized gains	948,074	9,595,447	10,543,521
Change in beneficial interest in annuities	22,053	-	22,053
Actuarial change on annuity obligations	-	2,946	2,946
<b>Total Other Changes</b>	<b>970,127</b>	<b>9,598,393</b>	<b>10,568,520</b>
<b>Change in Net Assets</b>	<b>2,429,919</b>	<b>15,924,067</b>	<b>18,353,986</b>
<b>Net Assets at beginning of year</b>	<b>46,341,489</b>	<b>135,353,670</b>	<b>181,695,159</b>
<b>Net Assets at end of year</b>	<b>\$ 48,771,408</b>	<b>\$ 151,277,737</b>	<b>\$ 200,049,145</b>

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018 (with comparative 2017 totals)

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL EXPENSES	
	Mission Services	Publishing Ministry	Total Program Services	Management and General	Fundraising	Total Supporting Services	2018	2017
Personnel	\$ 3,869,791	\$ 716,216	\$ 4,586,007	\$ 918,998	\$ 193,080	\$ 1,112,078	\$ 5,698,085	\$ 5,603,752
Ministry Support & Partner Grants	2,207,388	2,862	2,210,250	103,210	1,194	104,404	2,314,654	2,317,292
Professional Services & Fees	151,750	88,163	239,913	148,453	128,599	277,052	516,965	453,086
Travel	462,776	28,161	490,937	196,177	23,870	220,047	710,984	788,906
Occupancy	447,154	74,288	521,442	60,418	9,000	69,418	590,860	523,100
Depreciation and Amortization	303,822	77,618	381,440	135,378	18,019	153,397	534,837	278,557
Education Scholarships, Grants, and Support	487,761	-	487,761	-	-	-	487,761	511,575
Fulfillment Services & Postage	68,605	200,021	268,626	90,148	4,435	94,583	363,209	442,234
Technology and Phone Service	118,715	37,472	156,187	155,196	2,688	157,884	314,071	336,206
Conference, Events and Meetings	237,808	2,787	240,595	50,604	631	51,235	291,830	115,398
Insurance	90,199	24,905	115,104	130,896	838	131,734	246,838	228,090
Promotion and Advertising	35,102	42,978	78,080	49,795	82,769	132,564	210,644	251,653
Interest Expense	120,922	21,806	142,728	62,269	7,929	70,198	212,926	212,405
Other	60,370	24,287	84,657	4,680	1,557	6,237	90,894	43,767
<b>Total Expenses</b>	<b>\$ 8,662,163</b>	<b>\$ 1,341,564</b>	<b>\$ 10,003,727</b>	<b>\$ 2,106,222</b>	<b>\$ 474,609</b>	<b>\$ 2,580,831</b>	<b>\$ 12,584,558</b>	<b>\$ 12,106,021</b>

The accompanying notes are an integral part of these financial statements.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

	PROGRAM SERVICES			SUPPORTING SERVICES			Total 2017
	Mission Services	Publishing Ministry	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 3,806,558	\$ 694,906	\$ 4,501,464	\$ 955,120	\$ 147,168	\$ 1,102,288	\$ 5,603,752
Ministry Support & Partner Grants	2,178,764	-	2,178,764	136,533	1,995	138,528	2,317,292
Professional Services & Fees	79,368	104,691	184,059	146,340	122,687	269,027	453,086
Travel	527,051	24,328	551,379	209,711	27,816	237,527	788,906
Occupancy	398,051	62,257	460,308	61,592	1,200	62,792	523,100
Depreciation and Amortization	79,677	32,666	112,343	160,714	5,500	166,214	278,557
Education Scholarships, Grants, and Support	511,575	-	511,575	-	-	-	511,575
Fulfillment Services & Postage	67,714	245,363	313,077	81,438	47,719	129,157	442,234
Technology and Phone Service	101,547	41,874	143,421	192,057	728	192,785	336,206
Conference, Events and Meetings	92,989	1,950	94,939	20,009	450	20,459	115,398
Insurance	59,539	22,958	82,497	145,093	500	145,593	228,090
Promotion and Advertising	59,899	54,801	114,700	56,710	80,243	136,953	251,653
Interest Expense	99,830	18,520	118,350	92,405	1,650	94,055	212,405
Other	5,982	9,579	15,561	25,380	2,826	28,206	43,767
<b>Total Expenses</b>	<b>\$ 8,068,544</b>	<b>\$ 1,313,893</b>	<b>\$ 9,382,437</b>	<b>\$ 2,283,102</b>	<b>\$ 440,482</b>	<b>\$ 2,723,584</b>	<b>\$ 12,106,021</b>

The accompanying notes are an integral part of these financial statements.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## COMBINED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (16,548,126)	\$ 18,353,986
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	534,837	278,557
Change in value of annuity obligations	1,114	(2,946)
Net realized and unrealized (gains) losses on investments	9,474,362	(23,941,553)
Contributions restricted for long-term investment	(64,811)	-
Reserve for loan losses	(11,665)	(126,645)
(Increase) decrease in Receivables (Publishing)	108,891	(44,165)
(Increase) decrease in Receivables from Baptist related organizations	891,969	(812,423)
(Increase) decrease in Prepaid expenses and other assets	149,054	(159,995)
(Increase) decrease in Inventory (Publishing)	(7,751)	4,878
(Increase) decrease in Interest receivable	762	1,118
(Increase) decrease in Pledges receivable	-	17,060
Increase (decrease) in Accounts payable	257,497	340,859
Increase (decrease) in Accrued expenses	(64,221)	(83,626)
Increase (decrease) in Allowance for sales returns	(10,505)	74,121
<b>Net cash used in operating activities</b>	<u>(5,288,593)</u>	<u>(6,100,774)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mortgage loans issued	(48,000)	(33,010)
Collections on mortgage loans	202,538	244,766
Purchases of property and equipment	(7,699,419)	(7,413,137)
Purchases of investments	(94,145,358)	(61,509,760)
Proceeds from sale of investments	106,893,909	75,027,487
<b>Net cash provided by investing activities</b>	<u>5,203,670</u>	<u>6,316,346</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for endowment	64,811	-
Payments made on equity note	(98,614)	(91,966)
<b>Net cash used in financing activities</b>	<u>(33,803)</u>	<u>(91,966)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	(118,726)	123,606
Cash and Cash Equivalents - Beginning of year	<u>4,362,735</u>	<u>4,239,129</u>
Cash and Cash Equivalents - End of year	<u>\$ 4,244,009</u>	<u>\$ 4,362,735</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 212,926</u>	<u>\$ 212,405</u>

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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### (1) GENERAL

The American Baptist Home Mission Society (“*ABHMS*”) and Woman’s American Baptist Home Mission Society (“*WABHMS*”) are operated collectively as the American Baptist Home Mission Societies (collectively, the “*Societies*”). *ABHMS* was established for the purpose of promoting the preaching of the gospel; the establishing, maintaining, or aiding Baptist churches or missions; the acquisition of sites in contemplation of the erection of houses of worship and other buildings; and establishing, maintaining, assisting in the establishing or maintaining of schools and other institutions of learning in connection with its missionary work in North America. *WABHMS* was established to proclaim and witness to the Christian Faith in the United States and elsewhere in North America through the establishment, maintenance and assistance of churches, missions, and institutions of care or learning; to promote spiritual life and worship; and to minister to persons of special need in all ways its Board of Directors may deem appropriate. That work is carried on today through ministries that cultivate leaders, equip disciples, and heal communities. The accompanying combined financial statements include the activities of the Societies. All intercompany transactions have been eliminated.

Significant publishing activities are carried out by Judson Press, which serves as a trademark and imprint for the preparation for publication, printing and promoting the use of lesson texts, books, and other resource materials in support of the program of Christian education in the home, the local parish, and the community. The activities associated with Judson Press are reflected in the combined financial statements.

The Common Investment Fund (“*CIF*”) was established in 1962 to manage the assets of the Societies. In 1975, it was expanded to allow American Baptist churches and certain related agencies, boards, societies, conventions, institutions and administrative units of the American Baptist Churches in the U.S.A. (“*ABC-USA*”) to participate. As a pooled investment vehicle, it offers investors the benefits of participating in a professionally managed fund at lower costs, due to economies of scale. The minimum initial deposit in the *CIF* by any eligible organization is \$5,000. The investor balances included within the *CIF* are reflected in the Combined Statements of Financial Position as “Assets held for others” with a corresponding liability in “Funds held for others”.

The Internal Revenue Service (“*IRS*”) has determined the Societies to be “associations of churches” and, therefore, exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The *IRS* has further determined that contributions made to the Societies are deductible by the donors to the extent allowed by law. Management has reviewed their tax positions 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 combined financial statements of the Societies have been prepared using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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### **NET ASSETS**

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Societies are classified and reported as follows:

**Without donor restrictions** – Net assets that are available for the support of operations and whose use is not externally restricted.

Included in net assets without donor restrictions are net assets designated by the Board of Directors to function as endowment funds.

**With donor restrictions** – Net assets subject to donor-imposed restrictions that will be met either by actions of the Societies or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts, endowment, pledges and investment returns on “true” endowment funds. Expirations of restrictions of net assets with donor restrictions are reported as net assets released from restriction.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Societies, including gifts wherein donors stipulate that the corpus of the gift be held in perpetuity (primarily gifts for endowment) and that only the income be made available for operations or other purposes.

### **CASH AND CASH EQUIVALENTS**

For the purpose of the statements of cash flows, the Societies consider all highly liquid investments available for current use with an original maturity of three months or less to be cash equivalents.

### **CONCENTRATIONS OF CREDIT RISK**

ABHMS has significant investments in stocks, bonds, and mutual funds and is therefore subject to concentrations of credit risk. Investments are made by investment managers engaged by ABHMS and the investments are monitored for ABHMS by an investment committee. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes its investment policies are prudent for the long-term welfare of ABHMS and its beneficiaries.

In addition, certain financial instruments potentially subject ABHMS to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents and mortgage loans receivable. ABHMS places its cash and cash equivalents with high credit quality financial institutions. Concentrations of credit risk with respect to loans receivable are generally diversified due to the large number of borrowers comprising the ABHMS customer base and their dispersal across geographical regions.

### **ASSETS HELD FOR OTHERS**

Assets held for others include amounts held by the Societies for the administration and management of assets in revocable charitable remainder trusts. They also include amounts held for The American Baptist Service Corporation (“**ABSCO**”) and The New Baptist Covenant (“**NBC**”) for which the Societies act as custodian. In addition, American Baptist churches and related American Baptist agencies can invest in the CIF. These funds are held in a fiduciary capacity and reflected as a liability (Funds of others) in the combined statements of financial position.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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### ***ACCOUNTS RECEIVABLE FROM BAPTIST RELATED ORGANIZATIONS***

Accounts receivable due from Baptist related organizations consists of loans, funds held by related organizations, and amounts due to the Societies for mission fund support, net of allowance for doubtful accounts. Allowance for doubtful accounts is determined by review of the aged accounts receivable listing for balances that are specifically identifiable as a credit risk or uncollectible.

### ***INVENTORY***

Inventories, consisting principally of printed materials and merchandise held for sale, are stated at cost less an estimated reserve for obsolescence, but not in excess of net realized value. The first-in, first-out method is used for inventory tracking and valuation.

### ***INVESTMENTS***

Investments are stated at fair value. Donated securities are recorded at fair value on the date of receipt. Investments consist principally of certificates of deposit, U.S. Government and fixed income securities, corporate obligations, marketable equity securities, mutual funds, and alternative investments. Alternative investments may include asset managers, partnerships or other similar vehicles investing in domestic and international securities (either buying long or selling short), venture capital investments, private equity, high yield, distressed securities, mezzanine debt, loans, real estate and timber.

Investment income is recorded on the accrual basis of accounting and investment transactions are recorded on trade date. Investment income including realized and unrealized gains and losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily restricted by explicit donor stipulations or law.

ABHMS' custodial bank computes gains and losses on sales using the FIFO method. ABHMS computes withdrawals from the CIF using the LIFO method. The CIF makes distributions to participating funds at a rate determined annually based on a 20 quarter average net asset value (NAV) approved by the Board of Directors. The annual payout rate for 2018 and 2017 was 5%.

### ***PROPERTY, EQUIPMENT AND DEPRECIATION***

Property and equipment are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation 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 in the Statement of Activities in the period of disposition. Repair and maintenance costs are expensed when incurred, while improvements that extend the life of the assets are capitalized.

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

### ***ANNUITY OBLIGATIONS***

The actuarial liability for annuity payments is computed as required by New York State insurance law under the 1990 CM Standard IRS Annuity Tables, assuming a 6% reserve. The life expectancy of annuitants determines the actuarial obligations. If the life expectancy of the pool of annuitants differs from these assumptions, an actuarial loss or gain on annuity obligations can result.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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### **CONTRIBUTIONS AND DONATIONS**

Contributions which are unconditional are recognized when received. Contributions restricted by the donor are reported as increases in donor restricted net assets depending on the nature of the restrictions.

### **USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related disclosures. Actual results could differ from those estimates.

### **NEW ACCOUNTING STANDARDS ADOPTED BY THE SOCIETIES**

In 2018, the Societies adopted Accounting Standards Update (ASU) 2016-14, Presentation of the Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of this guidance include the presentation of two classes of net assets versus the previously required three. This guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 is as follows:

<u>Net Asset Classifications</u>	<u>ASU 2016-14 Classification</u>		<u>Total Net Assets</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
As previously presented:			
Unrestricted	\$ 48,771,408	\$ -	\$ 48,771,408
Temporarily Restricted	-	113,101,018	113,101,018
Permanently Restricted	-	38,176,719	38,176,719
Net assets as restated	<u>\$ 48,771,408</u>	<u>\$ 151,277,737</u>	<u>\$ 200,049,145</u>

### **RECLASSIFICATIONS**

Certain reclassifications were made to the 2017 financial statements to conform to the 2018 presentation.

### **NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). This ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP), including those that previously followed industry-specific guidance. The guidance states 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 FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied retrospectively in the year this ASU is first applied. The Societies plan to adopt this new ASU at the required implementation date.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. This ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. The Societies plan to adopt this new ASU at the required implementation date.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. This ASU should be applied using a modified prospective basis. The Societies plan to adopt this new ASU at the required implementation date.

### (3) ASSETS HELD FOR OTHERS

Assets whose use is limited at December 31, 2018 and 2017 are designated as follows:

	<u>2018</u>	<u>2017</u>
Custodial Funds:		
Assets held for The American Baptist Service Corporation	\$ 1,323,043	\$ 1,323,043
Assets held for The New Baptist Covenant	-	355,953
Assets held for others through the Common Investment Fund	<u>48,606,499</u>	<u>53,082,287</u>
	49,929,542	54,761,283
Assets held under trust agreements	<u>283,600</u>	<u>310,089</u>
	50,213,142	55,071,372
Less current portion	<u>(1,323,043)</u>	<u>(1,678,996)</u>
Noncurrent portion	<u>\$ 48,890,099</u>	<u>\$ 53,392,376</u>

### (4) RECEIVABLES DUE FROM BAPTIST RELATED ORGANIZATIONS

ABHMS has loaned funds to other related organizations to be used for the redemption of debts and payment of operating expenses. In addition, as described in Note 5, ABHMS's mortgage loans are administered by the American Baptist Extension Corporation ("*ABEC*"). Amounts due from ABEC for loans collected in excess of the amounts due to ABEC for loan disbursements are recorded as receivables.

The collectability of these loans is dependent upon (1) the ability of these organizations to liquidate their assets for amounts at least equal to their liabilities and (2) the portion of these organizations' losses that are borne by other Baptist related organizations.

Gift annuities are administered by the American Baptist Foundation and are recorded as receivables.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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As of December 31, 2018 and 2017, the receivables from these organizations include:

	<u>2018</u>	<u>2017</u>
American Baptist Extension Corporation	\$ 314,281	\$ 283,054
American Baptist Service Corporation	1,932,885	1,932,885
American Baptist Foundation	244,866	251,030
American Baptist Churches USA	110,307	108,263
American Baptist Historical Society	24,681	32,387
American Baptist Assembly	243,000	243,000
Bacone College	-	900,000
Other	<u>16,076</u>	<u>27,446</u>
	2,886,096	3,778,065
Less: Allowance for doubtful receivables	<u>(1,932,885)</u>	<u>(1,932,885)</u>
	953,211	1,845,180
Less: current portion	<u>(178,805)</u>	<u>(1,027,555)</u>
Noncurrent portion	<u>\$ 774,406</u>	<u>\$ 817,625</u>

### (5) MORTGAGE LOANS RECEIVABLE

The Societies mortgage loan portfolio was made up of 26 and 29 loans as of December 31, 2018 and 2017, respectively. The average rate on these loans as of December 31, 2018 and 2017 was 4.15% and 4.84%, respectively. Interest income on these mortgage loans is recorded on the accrual basis of accounting. These loans are geographically dispersed throughout the United States and are administered by ABEC (*See Note 4*).

Scheduled maturities of mortgage loans receivable are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 69,498
2020	72,841
2021	66,727
2022	67,734
2023	71,085
Thereafter	<u>1,334,061</u>
Subtotal	1,681,946
Less reserve	<u>(480,867)</u>
Total	<u>\$ 1,201,079</u>

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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### (6) INVESTMENTS

The Societies carries its investments at fair value. The Societies utilize 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.

#### ***EQUITIES***

For its investments with asset managers that hold public common and preferred stocks, the Societies have position-level transparency into individual holdings. These investments are priced by the Societies' custodians using observable market data and are classified as Level 1.

#### ***FIXED INCOME***

The Societies also have investments with two fixed income managers.

Garcia Hamilton is a separate account fixed income manager. Investments consist mainly of corporate bonds, U.S. Treasury obligations, mortgage and asset backed securities, foreign currency – denominated issues, and financial derivatives. These are classified as Level 2.

ABEC investments held by ABHMS are non-negotiable notes that mature between May 2019 and March 2022 with interest rates ranging from 1.28% to 1.87%. ABEC is a New York not-for-profit corporation that exists to promote and support church extension and to assist churches and other related entities with acquisition, construction, and renovation of property for the spreading and sharing of the Gospel of Jesus Christ. Because fair value of these investments is based on internally developed models or methodologies using unobservable inputs they have been classified as Level 3.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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### **OTHER INVESTMENTS**

This category consists of investments placed with the American Baptist Foundation that the Societies received from the dissolution of Education Ministries Pooled Income and Annuity Fund. The assets of the Pooled Income fund are invested in the Wellington Admiral Fund and the Annuity Fund is invested in the Dodge & Cox Balanced Fund. Both are classified as Level 2.

Also included in this category are investments in community development loan funds that are held as part of the Societies' Mission Directed Funds. These investments serve as an expression of ABHMS' concern for the economic development and empowerment of low-income and minority communities. The hope is to provide such financial institutions with resources to further the economic growth of the communities in which they serve while at the same time earning a reasonable rate of return. Because fair value is based on internally developed models or methodologies using unobservable inputs these have been classified as Level 3.

### **Investments Measured Using the Net Asset Value Practical Expedient**

For those alternative investments for which fair value is measured using the net asset value practical expedient, the American Baptist Home Mission Societies uses the reported capital account or net asset value (NAV) per share to determine the fair value of investments that (a) do not have a readily determinable fair value due to a lack of market activity or transparency into the underlying investments of the fund and (b) either have the attributes of an investment company or prepare their audited financial statements consistent with the measurement principles of an investment company. Valuations of underlying assets which comprise the capital account or NAV per share are provided by the general partner or fund manager, and consider variables such as comparable sales, income streams discounted for risk levels, and other pertinent information.

### **ALTERNATIVE INVESTMENTS**

- Hedge Fund - The fund consists of two funds. Bogle and Owl Creek Socially Responsible Investment Funds are respective individual hedge funds that invest consistent with the Societies' Socially Responsible Investment Policy. The fair value of these investments is determined by the administrator in consultation with each investment manager.
- Real Estate - The Societies are a Limited Partner investor in the CrossHarbor Institutional Partners II and Patron Capital IV & V funds. Each fund is a distressed equity real estate investor, primarily in North America and Europe respectively. The funds are designed to acquire and dispose of properties to generate an IRR that is consistent with the Societies long term investment goals. All properties are appraised independently each year.
- Forestland REIT - The Societies are a Limited Partner in Heartwood Forestland REIT. Heartwood Forestland engages in acquiring a diversified portfolio of commercial forestlands to provide current income from the management and operations of such forestlands and to realize capital appreciation of the forestlands. Valuations are made by the General Partner during the first three years after acquisition (the initial acquisition date was September 30, 2007). An independent appraiser will establish value at the end of every three-year cycle.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

Unfunded commitments for alternative investments at December 31, 2018 are as follows:

CrossHarbor Institutional Partners II	\$ 117,647
Patron Capital IV	352,673
Patron Capital V	<u>1,284,461</u>
	<u>\$ 1,754,781</u>

### COMINGLED FUNDS

The Colchester Global Bond Fund includes, among others, the domestic sovereign debt of the higher quality smaller countries such as Australia, Brazil, Hungary, Mexico, New Zealand, Norway, Poland and Czech Republic. Bain Capital Senior Loan Fund invests in senior, variable rate loans.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Societies believe its valuation methods are consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair values of the investment securities (including assets held for others and assets restricted for annuity obligations) and the associated fair value measurements as of December 31, 2018 and 2017, are as follows:

<b>2018</b>	<b><u>Total</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
<b>Investment Type</b>				
Equities	\$ 128,590,362	\$ 128,590,362	\$ -	\$ -
Fixed Income	31,580,957	2,202,141	27,877,350	1,501,466
Other	535,381	-	457,699	77,682
Cash Equivalents	<u>5,423,880</u>	<u>5,423,880</u>	<u>-</u>	<u>-</u>
	166,130,580	<u>\$ 136,216,383</u>	<u>\$ 28,335,049</u>	<u>\$ 1,579,148</u>
Investments reported at NAV				
Alternative Investments	21,967,236			
Comingled Funds	<u>21,219,149</u>			
	<u>\$ 209,316,965</u>			
<b>2017</b>	<b><u>Total</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
<b>Investment Type</b>				
Equities	\$ 158,969,967	\$ 158,969,967	\$ -	\$ -
Fixed Income	27,467,572	2,274,119	23,691,987	1,501,466
Other	763,548	-	636,616	126,932
Cash Equivalents	<u>7,660,679</u>	<u>7,660,679</u>	<u>-</u>	<u>-</u>
	194,861,766	<u>\$ 168,904,765</u>	<u>\$ 24,328,603</u>	<u>\$ 1,628,398</u>
Investments reported at NAV				
Alternative Investments	17,860,144			
Comingled Funds	<u>23,764,299</u>			
	<u>\$ 236,486,209</u>			

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

	<b><u>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</u></b>		
	<b><u>Fixed Income (ABEC Note)</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
Beginning Balance 12/31/17	\$ 1,501,466	\$ 126,932	\$ 1,628,398
Investments made during year	-	-	-
Withdrawals made during year	-	(50,000)	(50,000)
Unrealized/Realized Gain	-	750	750
Ending Balance 12/31/18	<u>\$ 1,501,466</u>	<u>\$ 77,682</u>	<u>\$ 1,579,148</u>
	<b><u>Fixed Income (ABEC Note)</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
Beginning Balance 12/31/16	\$ 1,501,466	\$ 424,015	\$ 1,925,481
Investments made during year	-	-	-
Withdrawals made during year	-	(300,000)	(300,000)
Unrealized/Realized Gain	-	2,917	2,917
Ending Balance 12/31/17	<u>\$ 1,501,466</u>	<u>\$ 126,932</u>	<u>\$ 1,628,398</u>

### (7) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In accordance with Topic 815, the Societies disclose the following information: The Societies use derivative instruments for adjusting the degree of risk in the Societies' portfolio. The fair value of these investments is determined by each manager using either an in-house valuation team or a third-party administrative service. The financial statements of the investees are audited annually by independent auditors. The Societies record its derivative activities at fair value, based on third-party valuations. These amounts are included in total investments and assets held for others in the statements of financial position. Gains and losses from derivative financial instruments are included in net realized and unrealized gains and losses from investments in the statement of activities and assets held for others.

Bogle Opportunity Fund II SRI, L.P, Newton, MA and Owl Creek Socially Responsible Investment Fund Ltd., New York, New York are respective individual hedge funds, and both have socially responsible mandates focused on faith based, ethical principles. Both firms have strong teams and long-term investment performance track records. Each fund's objective is long term capital appreciation with moderate volatility and lower correlation to global equity and fixed income markets. To this end, the funds make allocations to individual equity and fixed income strategies respectively that may involve derivatives and short selling.

#### **FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

The Societies' investment activities expose it to the various types of risk which are associated with the financial instruments and markets in which it invests. The following is not intended to be a comprehensive summary of all risks, but rather to highlight primary underlying risk exposure categories.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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*Market Risk* – Market risk represents the potential loss that can be caused by a change in the fair value of the Societies’ financial instruments. The Societies’ exposure to market risk is determined by several factors, including market volatility. The Societies’ exposure to market risk is monitored by the Finance Committee with support from its investment consultants at Colonial Consulting.

*Credit Risk* – All deposits and securities owned by the Societies are held by its custodian or by custodians engaged by certain investment managers. The Societies are subject to credit risk should broker-dealers be unable to repay amounts owed, or if the custodians are unable to fulfill their obligations to the Societies. It is the policy of the Societies to transact its investment activity with high credit quality financial institutions and broker-dealers the Societies consider to be well established. While both the U.S. Bankruptcy Code and the Federal Deposit Insurance Corporation seek to protect customer assets in the event of a failure, insolvency or liquidation of a bank, there is no certainty that, in the event of a failure of a bank that has custody of the Societies’ assets that the Societies would not incur losses.

*Currency Risk* – Although most of the Societies’ investments are denominated in U.S. Dollars, the Societies may invest in assets denominated in currencies other than its reporting currency, the United States Dollar. Consequently, the Societies may be exposed to risks that the exchange rate of the U.S. Dollar relative to other currencies may change in a manner which has an adverse effect on the reported value of that portion of the Societies’ assets and liabilities which are denominated in currencies other than the U.S. Dollar.

*Interest Rate Risk* – Debt obligations are subject to interest rate risk. Interest rate risk is the risk that the Societies may incur losses due to adverse changes in interest rates. Fluctuations in interest rates have a direct impact on the market value of debt obligations. The Societies’ exposure is determined by several factors including term to maturity for investments.

*Liquidity Risk* – Liquidity risk represents the possibility that the Societies may not be able to rapidly adjust the size of its positions in times of high volatility and financial stress at a reasonable price.

*Money Market Fund Risk* – An investment in money market funds is exposed to the risk that a fund will not always be able to maintain a net asset value per share of \$1.00. The investments in money market funds are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. In addition, money market funds are exposed to market risk, credit risk, interest rate risk, and liquidity risk.

*Off Balance Sheet Risk* – Off balance risk exists when the maximum potential loss on a particular investment is greater than the value of such investment as reflected in the Fund’s statement of assets and liabilities.

### (8) PROPERTY HELD FOR INVESTMENT PURPOSES

In 2016, an Investment Partnership consisting of the Headquarters for the Societies and other Baptist Organizations, (“the Partnership”) in which the Societies held a 35% interest was dissolved, and in connection with the dissolution, the Societies received its share of the property previously held by the Partnership. The Societies’ 35% ownership share of the partnership property was \$6,643,761 and is included in property and equipment on the Statement of Financial Position as of December 31, 2017. In 2018, the Societies relocated its headquarters and along with the other owners of the former headquarters, has signed an agreement of sale subject to due diligence. The Property held for investment purposes had a net book value of \$6,355,253 as of December 31, 2018.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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### (9) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Computer equipment	\$ 2,524,545	\$ 1,188,843
Furniture and fixtures	843,031	488,501
Schools, Missions, Christian Centers and other properties	14,359,904	11,681,886
Land	1,949,602	4,749,602
Construction in process	<u>-</u>	<u>512,592</u>
	19,677,082	18,621,424
Less accumulated depreciation	<u>(4,561,766)</u>	<u>(4,315,437)</u>
Property and equipment, net of depreciation	<u>\$15,115,316</u>	<u>\$14,305,987</u>

Depreciation expense of property and equipment was \$534,837 and \$278,557 in 2018 and 2017, respectively.

During 2018, the Societies moved from its former headquarters after purchasing and renovating a new building to serve as its headquarters. As such, the carrying value of its former headquarters of \$6,355,253 has been reclassified to Property Held for Investment Purposes (*See Note 8*).

### (10) EQUITY NOTE PAYABLE

ABHMS entered into a note payable in connection with their acquisition of a 34.65% interest in 588 Associates, LP (the "*Partnership*"), a Pennsylvania limited partnership, and a 35% interest in its general partner. The Partnership acquired the ABC Mission Center from ABC-USA for the purchase price of twenty million dollars (\$20,000,000). At that time, the Societies paid ABC-USA \$3,500,000 cash and entered into a 25-year equity financing agreement with ABCUSA for \$3,500,000 to finance the other half of its share of the acquisition. Under the terms of this agreement, the equity note is payable to ABC-USA in monthly installments of \$24,737, including interest at 7% per annum, through March 1, 2034.

The Partnership agreed to dissolve effective September 30, 2016 in accordance with the Tenants in Common Agreement signed by ABHMS, ABC-USA, ABFMS and MMBB. Per the agreement, the land, building and equipment and the interest in all lease agreements were distributed to the partners based on their respective share in the partnership.

The equity note payable matures as follows:

2019	\$ 105,743
2020	113,387
2021	121,584
2022	130,373
2023	139,798
Thereafter	<u>2,167,032</u>
Total	<u>\$ 2,777,917</u>

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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### (11) ANNUITY AND LIFE INCOME FUNDS

The Insurance Law of the State of New York requires the segregation of annuity fund assets separate and distinct from all other funds of the Societies. Such assets are not available for payment of debts of the Societies other than for annuity benefits. The insurance law also requires prescribed minimum reserves for annuity contracts equal to the greater of the actuarial reserve, or \$100,000. The last annual report was filed in 2005 when the Societies' annuity fund assets fell below the State of New York reporting threshold of \$500,000. The Actuarial Liability for annuity obligations was \$42,636 and \$41,522 at December 31, 2018 and 2017, respectively.

### (12) NET ASSETS

Net assets without donor restrictions include the following Board/Other designated net assets at December 31:

	<u>2018</u>	<u>2017</u>
Board-designated endowment funds	\$ 23,432,906	\$ 29,928,415
Property and equipment, net of equity note payable	12,337,399	11,429,456
Property held for investment purposes	<u>6,355,253</u>	<u>-</u>
Total designated net assets	<u>\$ 42,125,558</u>	<u>\$ 41,357,871</u>

Net assets with donor restrictions consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
<b>Subject to expenditure for a special purpose:</b>		
Unexpended income and principal for capital expenditures, mortgage loans, student financial aid, endowment of schools, education purposes, operating programs and annuity life income funds	\$ 99,724,056	\$ 113,101,018
<b>Perpetual in nature:</b>		
Donor restricted endowments required to be maintained in perpetuity	<u>38,241,530</u>	<u>38,176,719</u>
Total net assets with donor restrictions	<u>\$ 137,965,586</u>	<u>\$ 151,277,737</u>

During the years ended December 31, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes for program or time as follows:

	<u>2018</u>	<u>2017</u>
One Great Hour of Sharing	\$ 1,084,024	\$ 585,605
Support of schools and colleges	193,879	179,912
In Support of Excellence program	165,833	419,778
Other operating programs	<u>373,301</u>	<u>395,452</u>
	<u>\$ 1,817,037</u>	<u>\$ 1,580,747</u>

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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### (13) ENDOWMENT

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

#### ***INTERPRETATION OF RELEVANT LAW***

ABHMS is incorporated in the states of New York and Massachusetts. WABHMS is incorporated in the state of Illinois. All three of these states have enacted the Uniform Prudent Management of Institutional Funds Act ("*UPMIFA*"), which governs endowment funds for not-for-profit corporations.

The Societies have interpreted the applicable state standards and guidelines for the prudent management of an endowment fund as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Societies retain in perpetuity (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund (i.e. the accumulated realized and unrealized gains/losses) that is not retained in perpetuity are subject to appropriation for expenditure by the Societies. The Societies consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Societies and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Societies
- (7) The investment policies of the Societies.

#### ***RETURN OBJECTIVES AND RISK PARAMETERS***

The Societies' endowment funds are invested in its CIF. According to policy approved by the Board of Directors, CIF assets are invested in a manner to preserve the real purchasing power of the assets after all withdrawals and fees by earning a total rate of return over full market cycles of 3 to 5 years which will support the spending policy stated below. Additionally, the total rate of return (net of fees) is expected to equal or exceed a passive investment in commonly quoted market indices (benchmarks) based on a long-term optimal asset allocation.

To satisfy its long-term rate-of-return objectives, the Societies rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Societies target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

### SPENDING POLICY

The Societies have a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 20 quarters ending on June 30 preceding the fiscal year in which the distribution is planned. This policy is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

### FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or state standards require the Societies to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2018 and 2017.

### ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 128,460,891	\$ 128,460,891
Board-designated endowment funds	<u>23,432,906</u>	<u>-</u>	<u>23,432,906</u>
Total	<u>\$ 23,432,906</u>	<u>\$ 128,460,891</u>	<u>\$ 151,893,797</u>

### CHANGES IN ENDOWMENT NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 29,928,415</u>	<u>\$ 141,344,791</u>	<u>\$ 171,273,206</u>
Contributions	<u>-</u>	<u>64,811</u>	<u>64,811</u>
Investment return:			
Investment income	162,052	888,186	1,050,238
Net depreciation (realized and unrealized)	<u>(1,340,182)</u>	<u>(6,990,163)</u>	<u>(8,330,345)</u>
Total	<u>(1,178,130)</u>	<u>(6,101,977)</u>	<u>(7,280,107)</u>
Appropriation of endowment assets for expenditure	<u>(5,317,379)</u>	<u>(6,846,734)</u>	<u>(12,164,113)</u>
Endowment net assets, end of year	<u>\$ 23,432,906</u>	<u>\$ 128,460,891</u>	<u>\$ 151,893,797</u>

### ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF DECEMBER 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 141,344,791	\$ 141,344,791
Board-designated endowment funds	<u>29,928,415</u>	<u>-</u>	<u>29,928,415</u>
Total	<u>\$ 29,928,415</u>	<u>\$ 141,344,791</u>	<u>\$ 171,273,206</u>

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

### CHANGES IN ENDOWMENT NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 32,819,353	\$ 127,132,713	\$ 159,952,066
Contributions	-	-	-
Investment return:			
Investment income	187,254	884,609	1,071,863
Net appreciation (realized and unrealized)	4,191,292	19,800,075	23,991,367
Total	4,378,546	20,684,684	25,063,230
Appropriation of endowment assets for expenditure	(7,269,484)	(6,472,606)	(13,742,090)
Endowment net assets, end of year	\$ 29,928,415	\$ 141,344,791	\$ 171,273,206

\* *The Societies' endowment funds are invested in its Common Investment Fund ("CIF"), which is a unitized fund. The net asset values for each individual fund are tracked separately based on (a) the original value of gifts donated, (b) accumulated net investment returns, and (c) distributions for expenditure. These amounts are reflected in the statement of activities through investment activity and net realized and unrealized gains and losses.*

#### (14) RETIREMENT PLAN

The Societies employees participate in the American Baptist Churches Retirement Plan (a defined contribution plan). All staff are covered and vested under the plan immediately upon employment. Pension expense was \$701,719 and \$714,979 for the years ended December 31, 2018 and 2017, respectively.

#### (15) COMMITMENTS AND CONTINGENCIES

##### Leases

The Societies formerly leased office space from a related Baptist Organization until it moved into its new headquarters in 2018. The Societies paid \$278,815 and \$325,189 in rental expense for the years ended December 31, 2018 and 2017, respectively.

The Societies leases a copier under an operating lease agreement expiring in September 2023. The total rental expense for the years ended December 31, 2018 and 2017 was \$22,485 and \$20,386, respectively.

As of December 31, 2018, the future minimum lease payments under the lease are as follows:

2019	\$ 28,782
2020	28,782
2021	28,782
2022	28,782
2023	21,587
	<u>\$ 136,715</u>

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 and 2017

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### Lease Income

The Societies leases office space under noncancelable leases that expire in 2023. The following is a schedule of future minimum rentals to be received under the lease agreements:

2019	\$ 436,365
2020	251,200
2021	59,811
2022	61,605
2023	<u>63,453</u>
	<u>\$ 872,434</u>

### Letter of Credit

The Societies has guaranteed a \$1,013,992 letter of credit, expiring December 31, 2019, issued by BNY Mellon for Bacone College. In connection with the guaranty, the Societies has pledged investment securities as collateral.

### Other

The Societies are from time to time involved in litigation arising in the ordinary course of business. At December 31, 2018 and 2017, there was no outstanding litigation or potential losses outstanding, therefore, no accrual has been recorded.

## (16) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects the Societies' financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual and/or donor restrictions.

### Financial Assets

Cash and cash equivalents	\$ 4,244,009
Investments	158,278,654
Receivables – current	<u>324,177</u>
Total financial assets	162,846,840
Less:	
Board-designated quasi and true endowment funds	(151,893,797)
Net assets with donor restrictions not expected to be spent within one year	<u>(8,704,408)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,248,635</u>

As part of the Societies' liquidity management, it has a practice to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Societies has donor-restricted endowment and investments used similar to quasi-endowment. Income from the endowments has a spending rate which generates approximately \$7.9 million which will be available within the next 12 months. Although the Society does not intend to spend from its quasi-endowment of approximately \$23.4 million other than amounts generated from the annual spending rate, amounts from its quasi-endowment could be made available, if necessary, with Board approval.

# AMERICAN BAPTIST HOME MISSION SOCIETIES

## *NOTES TO COMBINED FINANCIAL STATEMENTS – (Continued)*

**December 31, 2018 and 2017**

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### **(17) SUBSEQUENT EVENTS**

The Societies evaluated its December 31, 2018 combined financial statements for subsequent events through June 6, 2019, the date the combined financial statements were available to be issued. Management has determined that there are no subsequent events that would require disclosure or adjustment in the financial statements.

## **SUPPLEMENTAL INFORMATION**

# WOMAN'S AMERICAN BAPTIST HOME MISSION SOCIETY

## SCHEDULES OF FINANCIAL POSITION

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Investment in the Common Investment Fund	\$ 3,919,644	\$ 4,003,657
Receivable from the American Baptist Home Mission Society	197,903	61,317
Property and equipment, net of accumulated depreciation	<u>11,201</u>	<u>11,201</u>
Total Assets	<u><u>\$ 4,128,748</u></u>	<u><u>\$ 4,076,175</u></u>
<b>LIABILITIES</b>		
Payable to the American Baptist Home Mission Society	<u>\$ -</u>	<u>\$ -</u>
<b>NET ASSETS</b>		
Net Assets:		
Without donor restrictions	1,928,830	1,876,257
With donor restrictions	<u>2,199,918</u>	<u>2,199,918</u>
Total Net Assets	<u><u>4,128,748</u></u>	<u><u>4,076,175</u></u>
Total Liabilities and Net Assets	<u><u>\$ 4,128,748</u></u>	<u><u>\$ 4,076,175</u></u>

## SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>		
Investment income	\$ 797,657	\$ 808,431
Gain on sale of investment	148,139	936,151
Trust fund income	<u>5,200</u>	<u>5,200</u>
Total Revenues	950,996	1,749,782
<b>EXPENSES</b>		
Disbursements to The American Baptist Home Mission Society	<u>898,423</u>	<u>3,847,628</u>
Change in net assets	52,573	(2,097,846)
Net Assets at beginning of year	<u>4,076,175</u>	<u>6,174,021</u>
Net Assets at end of year	<u><u>\$ 4,128,748</u></u>	<u><u>\$ 4,076,175</u></u>

# COMMON INVESTMENT FUND

## SCHEDULES OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018		
	Societies	Funds of Others	Total
<b>ASSETS</b>			
Cash, cash equivalents and investments at fair value	\$ 152,811,536	\$ 48,679,716	\$ 201,491,252
Total Assets	<u>152,811,536</u>	<u>48,679,716</u>	<u>201,491,252</u>
<b>LIABILITIES</b>			
Accounts payable	917,739	73,217	990,956
Total Liabilities	<u>917,739</u>	<u>73,217</u>	<u>990,956</u>
Assets less liabilities	<u>\$ 151,893,797</u>	<u>\$ 48,606,499</u>	<u>\$ 200,500,296</u>
<b>NET ASSETS</b>			
Participating funds	\$ 54,204,665	\$ 36,996,195	\$ 91,200,860
Undistributed net realized gains	79,411,010	9,237,230	88,648,240
Accumulated market value over cost	18,278,122	2,373,074	20,651,196
Total net assets	<u>\$ 151,893,797</u>	<u>\$ 48,606,499</u>	<u>\$ 200,500,296</u>
<b>2017</b>			
	Societies	Funds of Others	Total
<b>ASSETS</b>			
Cash, cash equivalents and investments at fair value	\$ 174,321,768	\$ 53,117,679	\$ 227,439,447
Total Assets	<u>174,321,768</u>	<u>53,117,679</u>	<u>227,439,447</u>
<b>LIABILITIES</b>			
Accounts payable	3,048,562	35,392	3,083,954
Total Liabilities	<u>3,048,562</u>	<u>35,392</u>	<u>3,083,954</u>
Assets less liabilities	<u>\$ 171,273,206</u>	<u>\$ 53,082,287</u>	<u>\$ 224,355,493</u>
<b>NET ASSETS</b>			
Participating funds	\$ 57,121,503	\$ 36,248,490	\$ 93,369,993
Undistributed net realized gains	70,293,385	6,389,453	76,682,838
Accumulated market value over cost	43,858,318	10,444,344	54,302,662
Total net assets	<u>\$ 171,273,206</u>	<u>\$ 53,082,287</u>	<u>\$ 224,355,493</u>

\* Based on market values, the unit value was \$373.136 and \$410.745 at December 31, 2018 and 2017, respectively.

# COMMON INVESTMENT FUND

## SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2018 and 2017

	<b>2018</b>		
	<b>Societies</b>	<b>Funds of Others</b>	<b>Total</b>
<b>REVENUES AND GAINS</b>			
Contributions	\$ 760,982	\$ 2,572,274	\$ 3,333,256
Investment income	2,418,909	758,829	3,177,738
Net realized gains on sale of investments	16,553,680	5,175,253	21,728,933
Net unrealized losses	(25,580,196)	(8,071,270)	(33,651,466)
Total revenues and gains (losses)	<u>(5,846,625)</u>	<u>435,086</u>	<u>(5,411,539)</u>
<b>EXPENSES, PAYMENTS AND LOSSES</b>			
Withdrawals	3,677,820	1,824,569	5,502,389
Operating expenses	1,368,671	431,816	1,800,487
Distribution to participants	7,515,367	2,353,815	9,869,182
Gains paid to participants	970,926	300,674	1,271,600
Total expenses, payments and losses	<u>13,532,784</u>	<u>4,910,874</u>	<u>18,443,658</u>
Changes in net assets	(19,379,409)	(4,475,788)	(23,855,197)
Net assets at beginning of year	<u>171,273,206</u>	<u>53,082,287</u>	<u>224,355,493</u>
Net assets at end of year	<u>\$ 151,893,797</u>	<u>\$ 48,606,499</u>	<u>\$ 200,500,296</u>
<b>2017</b>			
	<b>Societies</b>	<b>Funds of Others</b>	<b>Total</b>
<b>REVENUES AND GAINS</b>			
Contributions	\$ 300,557	\$ 2,725,272	\$ 3,025,829
Investment income	2,414,896	732,704	3,147,600
Net realized gains on sale of investments	13,519,273	4,053,209	17,572,482
Net unrealized gains	10,171,537	3,091,864	13,263,401
Total revenues and gains	<u>26,406,263</u>	<u>10,603,049</u>	<u>37,009,312</u>
<b>EXPENSES, PAYMENTS AND LOSSES</b>			
Withdrawals	4,053,098	1,483,769	5,536,867
Operating expenses	1,343,033	407,113	1,750,146
Distribution to participants	7,286,289	2,200,945	9,487,234
Gains paid to participants	2,402,703	353,690	2,756,393
Total expenses, payments and losses	<u>15,085,123</u>	<u>4,445,517</u>	<u>19,530,640</u>
Changes in net assets	11,321,140	6,157,532	17,478,672
Net assets at beginning of year	<u>159,952,066</u>	<u>46,924,755</u>	<u>206,876,821</u>
Net assets at end of year	<u>\$ 171,273,206</u>	<u>\$ 53,082,287</u>	<u>\$ 224,355,493</u>

\* Income distribution is based on an annual payment rate of \$18.054 per unit in 2018 and \$17.258 per unit in 2017.