

BAPTIST FOUNDATION OF
MARYLAND/DELAWARE, INC.

FINANCIAL STATEMENTS
(Audited)

September 30, 2020

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WEBERMESSICK

1740 EAST JOPPA ROAD | 3RD FLOOR
BALTIMORE, MARYLAND 21234

TEL 410.933.8811
FAX 410.933.8622

WWW.WEBERMESSICK.COM

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Baptist Foundation of Maryland/Delaware, Inc.

We have audited the accompanying financial statements of Baptist Foundation of Maryland/Delaware, Inc. (a Nonprofit Organization), which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Baptist Foundation of Maryland/Delaware, Inc. as of September 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

WeberMessick

Baltimore, Maryland
November 20, 2020

Baptist Foundation of Maryland/Delaware, Inc.
Statement of Financial Position
September 30, 2020

Assets

<u>Baptist Convention of Maryland/Delaware, Inc. Funds</u>	
Baptist Convention of Maryland/Delaware, Inc. Funds	<u>\$ 2,734,632</u>
 <u>Heritage Fund</u>	
Heritage Parent Fund	<u>7,141,142</u>
 <u>Church Loan Fund</u>	
Loan Parent Fund	851,085
Notes Receivable	<u>2,097,301</u>
Total Church Loan Fund	<u>2,948,386</u>
 <u>Arthur Nanney Fund</u>	
Loan Parent Fund	54,884
Notes Receivable	<u>40,603</u>
Total Arthur Nanney Fund	<u>95,487</u>
 <u>CGA Fund</u>	
Charitable Gift Annuities	<u>5,893</u>
Total Assets	<u>\$ 12,925,540</u>

Liabilities and Net Assets

<u>Liabilities</u>	
Accrued Distribution Payable	<u>\$ 92,652</u>
Total Liabilities	<u>92,652</u>
 <u>Net Assets</u>	
Without Donor Restrictions	2,951,221
With Donor Restrictions	<u>9,881,667</u>
Total Net Assets	<u>12,832,888</u>
Total Liabilities and Net Assets	<u>\$ 12,925,540</u>

See Independent Auditor's Report and accompanying notes.

Baptist Foundation of Maryland/Delaware, Inc.
Statement of Activities
For the Year Ended September 30, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<u>Revenue, Other Support, and Reclassifications</u>			
Investment Income	\$ 8,771	\$ 201,360	\$ 210,131
Interest Income - Notes Receivable	95,857	-	95,857
Gifts and Bequests	-	153,727	153,727
Gain on Sale of Investments	-	342,776	342,776
Unrealized Appreciation on Marketable Securities	-	417,524	417,524
Net Assets Released from Restrictions			
Satisfaction of Purpose Restrictions	687,896	(687,896)	-
Total Revenue	792,524	427,491	1,220,015
<u>Expenses</u>			
Program Services			
Administration Services	88,059	-	88,059
Distributions	703,053	-	703,053
Total Program Services	791,112	-	791,112
Changes in Net Assets	\$ 1,412	\$ 427,491	\$ 428,903

See Independent Auditor's Report and accompanying notes.

Baptist Foundation of Maryland/Delaware, Inc.
Statement of Changes in Net Assets
For the Year Ended September 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net Assets, Beginning of Year	\$ 2,949,809	\$ 9,454,176	\$ 12,403,985
Changes in Net Assets	<u>1,412</u>	<u>427,491</u>	<u>428,903</u>
Net Assets, End of Year	<u>\$ 2,951,221</u>	<u>\$ 9,881,667</u>	<u>\$ 12,832,888</u>

See Independent Auditor's Report and accompanying notes.

Baptist Foundation of Maryland/Delaware, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2020

Cash Flows from Operating Activities	
Changes in Net Assets	\$ 428,903
Accrued Interest on Notes Receivable	(7,711)
Noncash Items Included in Net Income:	
Decrease in Accrued Distribution Payable	(24,200)
Unrealized Appreciation on Investments	(417,524)
Net Cash Used For Operating Activities	<u>(20,532)</u>
Cash Flows from Investing Activities	
Investment in Securities, Net of Sales	(9,968)
Principal Disbursements on Notes Receivable	(471,000)
Collection on Notes Receivable	273,299
Net Cash Used For Investing Activities	<u>(207,669)</u>
Net Decrease in Cash and Cash Equivalents	(228,201)
Cash and Cash Equivalents, Beginning of Year	<u>1,134,170</u>
Cash and Cash Equivalents, End of Year	<u>\$ 905,969</u>
Supplemental Disclosure of Cash Flow Information	
Interest Paid	<u>\$ -</u>

See Independent Auditor's Report and accompanying notes.

Baptist Foundation of Maryland/Delaware, Inc.
Notes to Financial Statements
September 30, 2020

Note 1 – Summary of Significant Accounting Policies

Date of Management's Review: Management has evaluated subsequent events through November 20, 2020, the date on which the financial statements were available to be issued. The Organization did not have any material recognizable subsequent events during this period.

Organizational Purpose: The Baptist Foundation of Maryland/Delaware, Inc. (the "Organization"), was established in 1999 as the successor organization to the Baltimore Baptist Church Extension Society (formed on January 2, 1854), the Baptist Mission Foundation of Maryland/Delaware (established 1959), and the Baptist Mission Foundation, Inc. (established 1991), and was organized to a) professionally manage the investment of all funds assigned to it by the Baptist Convention of Maryland/Delaware, Inc. and b) professionally manage the investment of all funds entrusted to the care of the Organization in compliance with the wishes of the donors.

Basis of Accounting: The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, which recognizes revenues and the related asset when earned, and expenses and the related liabilities when obligations are incurred. The Organization reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

Financial Statement Presentation: The Organization has adopted the Financial Accounting Standards Board (FASB) Accounting Standards Updated (ASU) 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." Under ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Without Donor Restrictions

Net assets which are free of donor-imposed restrictions. Included net assets are donor advised funds, for which donors may make recommendations to the Board of Trustees with respect to the distribution of the income and/or principal for an agreed upon period of time. The Board of Trustees has complete discretion on whether to accept or reject the donor's recommendation.

With Donor Restrictions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other specified events. When time or purpose restrictions expire, or are achieved, the net assets are reclassified to net assets without donor restrictions. Other restrictions are perpetual in nature, where resources are to be maintained in perpetuity.

Cash and Cash Equivalents: Cash equivalents for cash flow purposes is generally all highly liquid debt instruments that mature in 90 days or less.

Allowance for Uncollectible Notes Receivable: The notes receivable are reviewed on a quarterly basis for collectability. Any amounts deemed at risk are immediately reserved against revenue. The reserve has been established to offset uncollectible church loan fund notes receivable. In the event of default, the Organization would consider assisting an existing church or a new church plant in occupying the facility. The balance of the Allowance for Uncollectible Notes Receivable is \$304,451 as of September 30, 2020.

Property and Equipment: The Organization uses the property and equipment of the Baptist Convention of Maryland/Delaware, Inc. Therefore, there is no property and equipment reflected on the statement of financial position as of September 30, 2020.

Baptist Foundation of Maryland/Delaware, Inc.
Notes to Financial Statements
September 30, 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Gifts and Bequests: The Organization adopted FASB Accounting Standards Codification (ASC) 958-605, "Not-for-Profit Entities – Revenue Recognition." In accordance with FASB ASC 958-605, contributions received are recorded as without donor restrictions or with donor restrictions support depending on the existence and/or nature of any donor restrictions. Promises to give are not recorded as gifts and bequests until the funds are received.

Investments and Investment Income: The Organization has adopted FASB ASC 958-320, "Not-for-Profit Entities – Investments – Debt & Equity Securities." Under FASB ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Realized gains on the sale of investments, as well as dividends and interest earned, are reinvested until such time distributions are paid to the Baptist Convention of Maryland/Delaware, Inc. or designated organizations. Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. It is reasonably possible that changes in the values of investments could occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

The Organization has adopted FASB ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." The standards core principle is to improve the effectiveness of disclosures in the notes to the financial statements.

Interest Income – Church Loan Fund Notes Receivable: The Organization records interest income on the notes receivable when earned. The interest income earned is accrued for distribution to the Baptist Convention of Maryland / Delaware, Inc. at September 30, and paid at the beginning of the following year to be used for its' budgeted operations.

Distributions: Distributions primarily represent investment earnings and are distributed to the Baptist Convention of Maryland/Delaware, Inc. or designated organizations in accordance with donor restrictions and recorded as an expense in the statement of activities.

Income Taxes: The Organization is exempt for Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code and therefore has made no provision for income taxes in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service to not be considered a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. The Organization's Form 990, Return of Organization Exempt from Income Tax, generally stays open for three years from the filing date and is subject to examination by the IRS.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Note 2 – Cash and Cash Equivalents

The Organization maintains its cash accounts at various financial institutions and its balances may at times exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. The Organization has not experienced any losses in such accounts and monitors the creditworthiness of the financial institutions with which it conducts business. Management believes that the Organization is not exposed to any significant credit risk with respect to its cash balances.

Baptist Foundation of Maryland/Delaware, Inc.
Notes to Financial Statements
September 30, 2020

Note 3 – Investments and Fair Value Measurements

The Organization accounts for the fair value of its investments under the Fair Value Measurement and Disclosure topic of the FASB Accounting Standards Codification, which provides the framework for measuring fair value. The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under this guidance are described as follows:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2

Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and maximize the use of unobservable inputs.

There have been no changes in the methodologies used at September 30, 2020. 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 Organization's financial instruments, none of which are held for trading purposes, include cash, marketable securities, and notes receivable. The Organization estimates that fair value of all financial instruments at September 30, 2020 does not differ materially from the aggregate carrying values of its financial instruments recorded in these statements. The estimated fair value amounts have been determined by the Organization using available market and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

Investments stated at fair value as of September 30, 2020 are as follows:

	Cost	Fair Value	Unrealized Appreciation as of September 30, 2020
Fixed Income Funds	\$ 3,313,453	\$ 3,459,214	\$ 145,761
Equity Funds	5,320,809	6,422,453	1,101,646
Total	<u>\$ 8,634,262</u>	<u>\$ 9,881,667</u>	<u>\$ 1,247,407</u>

Baptist Foundation of Maryland/Delaware, Inc.
Notes to Financial Statements
September 30, 2020

Note 3 – Investments and Fair Value Measurements (continued)

The balances of the marketable securities accounts as shown on the statement of financial position as of September 30, 2020 are as follows:

Baptist Convention of Maryland/Delaware, Inc. Funds	\$ 2,734,632
Heritage Parent Fund	7,141,142
Charitable Gift Annuities	5,893
Total Marketable Securities	<u>\$ 9,881,667</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stock	\$ 5,245,165			\$ 5,245,165
U.S. Government and Agency Securities	219,228	\$ 323,157		542,385
Corporate Bonds and Notes		631,693		631,693
Asset Backed Securities		61,640		61,640
Equity Income Mutual Funds	784,082			784,082
Fixed Income Mutual Funds	2,311,229			2,311,229
Exchange Traded Funds	231,132			231,132
Private Equity Investments			\$ 74,341	74,341
Total	<u>\$ 8,790,836</u>	<u>\$ 1,016,490</u>	<u>\$ 74,341</u>	<u>\$ 9,881,667</u>

The following table sets forth a summary of changes in the fair value of the Organization's level 3 assets for the year ending September 30, 2020:

Beginning Balance, September 30, 2019	\$ 96,865
Realized Gains (Losses)	14,662
Unrealized Gains (Losses)	(18,751)
Purchases, Issuances, and Settlements	347
Sales and Redemptions	(18,782)
Ending Balance September 30, 2020	<u>\$ 74,341</u>

The Board of Trustees has adopted investment and spending policies for its assets that attempt to provide a predictable stream of funding to programs and ministries supported by the various individual funds, while also maintaining the purchasing power of those assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Assets are invested in a well-diversified asset mix, which includes equity and fixed income securities and alternative strategies, intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual spending distributions while growing the funds. Investment assets and allocation among asset classes and strategies are managed in a manner that will not expose the investment portfolio to unacceptable levels of risk.

Baptist Foundation of Maryland/Delaware, Inc.
Notes to Financial Statements
September 30, 2020

Note 4 – Notes Receivable – Church Loan Fund

The notes receivable are stated at face value. Interest is charged on the notes at a rate that averages 5%. Interest and principal repayment are determined on an individual basis based on the needs of the church. The Board has agreed that new loans issued will be charged interest at the greater of (1) a rate equal to the five-year Treasury Bill Constant Rate plus 2.5% (adjusted to the nearest 0.25%), or (2) 5%. Loans will be amortized over 15 to 30 years with interest adjusting after five years. It is the policy of the Organization to lend only up to 80% of the fair market value of the collateralized property to maximize collectability in the case of default by the church. Loans delinquent more than 90 days are reviewed for future losses and reserved if necessary.

Note 5 – Charitable Gift Annuities

The Organization has received Charitable Gift Annuities over the years. Donors have contributed assets in exchange for distributions of a fixed amount for a specified period of time. The assets were contributed directly to the Organization and are held as assets of the Organization. Once the obligations of the annuity agreement are fulfilled, the Organization will recognize as income the donor's residual contributions.

Note 6 – Net Assets

A summary of net assets as of September 30, 2020 is as follows:

<u>Without Donor Restriction</u>	
Board Designated:	
Church Loan Fund	\$ 2,855,734
Arthur Nanney Fund	95,487
Total	<u>\$ 2,951,221</u>

Church Loan Funds: These funds were designated by the trustees of the Organization and the General Mission Board for providing loans to churches affiliated with the Baptist Convention of Maryland/Delaware, Inc.

Arthur Nanney Funds: These funds were designated by the trustees of the Organization and the General Mission Board to provide interest free or low interest loans to assist in creative projects and emergency situations of no more than \$20,000 and which do not meet the regular criteria for the Church Loan Fund.

<u>With Donor Restrictions</u>	
Baptist Convention of Maryland/Delaware, Inc. Funds	\$ 2,734,632
Heritage Parent Fund	7,141,142
Charitable Gift Annuities	5,893
Total	<u>\$ 9,881,667</u>

Baptist Convention of Maryland/Delaware, Inc. Parent Funds: These funds are managed by the Organization to provide income for the Baptist Convention of Maryland/Delaware, Inc.'s annual budget with the earnings distributed to the Baptist Convention of Maryland/Delaware, Inc. and used according to the intention of the donor.

Baptist Foundation of Maryland/Delaware, Inc.
Notes to Financial Statements
September 30, 2020

Note 6 – Net Assets (continued)

Heritage Parent Funds: These funds are managed by the Organization to provide resources for various Baptist Convention of Maryland/Delaware, Inc. ministries or designated organizations, as stipulated by the donors.

Charitable Gift Annuities: These funds are held by the Organization to provide funding for stipulations set forth by the donors. The Organization agreed to provide distributions over a specified period of time in exchange for the principal to be donated to the Organization.

Note 7 – Related Party Transactions

The Organization receives services from employees of the Baptist Convention of Maryland/Delaware, Inc. Investment income and administrative fees support the Organization's administrative costs paid by the Baptist Convention of Maryland/Delaware, Inc. Gifts from the Baptist Convention of Maryland/Delaware, Inc. were \$90,102 for the year ending September 30, 2020. Distributions to the Baptist Convention of Maryland/Delaware, Inc. were \$596,942 for the year ending September 30, 2020 including accrued distributions of \$92,652 as of September 30, 2020 and are included in distributions on the statement of activities. Total management fees incurred and paid to the Baptist Convention of Maryland/Delaware, Inc. were \$32,191 for the year ending September 30, 2020 and are included in administration services on the statement of activities.