State Convention *of* Baptists in Indiana

STATE CONVENTION OF BAPTISTS IN INDIANA, INCORPORATED AND AFFILIATE

Combined Financial Statements
With Independent Auditors' Report

December 31, 2016 and 2015

CAPINCROUSE LLP

Table of Contents

CAPINCROUSE LLP

INDEPENDENT AUDITORS' REPORT

Board of Directors
State Convention of Baptists
in Indiana, Incorporated and Affiliate
Martinsville, Indiana

We have audited the accompanying combined financial statements of the State Convention of Baptists in Indiana, Incorporated and Affiliate (Organization), which comprise the combined statements of financial position as of December 31, 2016 and 2015, and the related combined statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organization as of December 31, 2016 and 2015, and the changes in combined net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Greenwood, Indiana
March 9, 2017

972 Emerson Parkway, Suite A
Greenwood, IN 46143
317.885.2620
capincrouse.com

Combined statements of financial position

December 31		**2016**		2015
Assets				
Cash and cash equivalents	**$**	**604,873**	$	855,661
Accounts and other receivable		**28,013**		454,898
Prepaid expenses and other assets		**28,542**		40,693
Church loans receivable, net		**3,486,811**		2,758,563
Assets held for future ministry		**107,510**		288,000
Investments		**2,602,437**		1,952,400
Land, buildings, and equipment, net		**2,451,277**		1,879,558
Total assets	**$**	**9,309,463**	$	8,229,773
Liabilities				
Accounts payable and accrued expenses	**$**	**494,492**	$	484,189
Deposits held for others		**3,288,475**		1,877,291
Deferred revenue		**18,182**		7,438
Liabilities under trust agreements		**518,616**		587,321
Capital lease liability		**24,223**		-
Accumulated post-retirement benefits		**942,001**		904,833
Total liabilities		**5,285,989**		3,861,072
Net Assets				
Unrestricted		**1,858,006**		1,724,601
Temporarily restricted		**1,321,736**		1,820,970
Permanently restricted		**843,732**		823,130
Total net assets		**4,023,474**		4,368,701
Total liabilities and net assets	**$**	**9,309,463**	$	8,229,773

Combined statements of activities and changes in net assets

For the years ended December 31	2016	2015
Changes in unrestricted net assets:		
Revenues, gains, and other support:		
Cooperative Program	$ **2,392,507**	$ 2,391,423
Southern Baptist Convention affiliates	**1,188,416**	1,107,229
Revenue	**651,845**	1,482,967
Investment income	**127,198**	79,998
Other support	**58,898**	37,716
	4,418,864	5,099,333
Net assets released by satisfaction of purpose restrictions	**1,238,588**	637,305
Total unrestricted revenues, gains, and other support	**5,657,452**	5,736,638
Expenses:		
Program expenses:		
Missions-State	**1,690,343**	1,463,857
SBC Cooperative Program	**875,456**	874,369
Camp operations	**911,560**	884,324
Church enrichment	**359,992**	362,648
Baptist Foundation	**215,654**	170,532
Women's/children's ministries	**212,038**	184,228
Student ministries	**121,187**	137,590
Evangelism and prayer	**222,397**	119,080
Pastor annuity supplement	**60,885**	61,610
Communications	**38,580**	34,151
Foreign missions	**7,027**	6,068
	4,715,119	4,298,457
Administrative expenses	**784,996**	896,182
Fund-raising expenses	**23,932**	18,591
Total expenses	**5,524,047**	5,213,230
Total changes in unrestricted net assets	**133,405**	523,408

(continued)

Combined statements of activities and changes in net assets (continued)

For the years ended December 31	2016	2015
Changes in temporarily restricted net assets:		
Southern Baptist Convention affiliates	**186,992**	328,476
Contributions	**507,133**	361,236
Investment income	**45,229**	43,435
	739,354	733,147
Net assets released by satisfaction of purpose restrictions	**(1,238,588)**	(637,305)
Total changes in temporarily restricted net assets	**(499,234)**	95,842
Changes in permanently restricted net assets:		
Contributions	**23,346**	1,468
Actuarial change	**(2,744)**	(13,021)
Total changes in permanently restricted net assets	**20,602**	(11,553)
Changes in net assets	**(345,227)**	607,697
Net assets, beginning of year	**4,368,701**	3,761,004
Net assets, end of year	**$ 4,023,474**	$ 4,368,701

Combined statements of cash flows

For the years ended December 31	**2016**	2015
Cash flows from operating activities:		
Change in net assets	**$ (345,227)**	$ 607,697
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	**159,422**	142,994
Property granted to church plant	**288,000**	-
Gain on sale of property	**-**	(732,491)
Provision for doubtful church loans receivable	**5,000**	5,000
Contributions for long-term purposes	**(23,346)**	(1,468)
Changes in operating assets and liabilities:		
Accounts receivable	**402,797**	(397,197)
Contributions receivable	**-**	33,000
Prepaid expense and other assets	**12,151**	(10,441)
Accounts payable and accrued expenses	**10,303**	(85,341)
Accumulated post-retirement benefits	**37,168**	41,111
Deferred revenue	**10,744**	(15,034)
Net cash provided (used) by operating activities	**557,012**	(412,170)
Cash flows from investing activities:		
Purchases of investments	**(2,990,840)**	(1,925,150)
Principal payments–church loan investments	**879,752**	309,674
Loans made to churches	**(1,696,422)**	(1,655,900)
Proceeds from investments	**2,340,803**	2,437,356
Purchases and construction of property and equipment	**(702,827)**	(138,968)
Proceeds from sale of property	**-**	850,000
Net cash used by investing activities	**(2,169,534)**	(122,988)
Cash flows from financing activities:		
Liability under trust agreement	**(68,705)**	(55,861)
Increase in deposits held for others	**1,849,348**	546,023
Decrease in deposits held for others	**(438,164)**	(65,333)
Payments on capital lease	**(4,091)**	-
Contributions for long-term purposes	**23,346**	1,468
Net cash provided by financing activities	**1,361,734**	426,297
Change in cash and cash equivalents	**(250,788)**	(108,861)
Cash and cash equivalents, beginning of year	**855,661**	964,522
Cash and cash equivalents, end of year	**$ 604,873**	$ 855,661
SUPPLEMENTAL DISCLOSURES:		
Noncash contributions	**$ 35,458**	$ 34,605
Conversion of loan receivable to asset held for future ministry	**$ 107,510**	$ -
Equipment financed via capital lease arrangement	**$ 28,314**	$ -

Notes to combined financial statements

December 31, 2016 and 2015

1. NATURE OF ORGANIZATION:

   State Convention of Baptists in Indiana, Incorporated (Convention) is a medium through which Baptist churches may work harmoniously and cooperatively with each other. The purpose of the Convention is to establish and strengthen Baptist churches in Indiana and to inspire churches to the greatest possible activity in missions, evangelism, Christian education, and benevolent work and to promote a closer cooperation among the churches and harmony of feeling in concerted action in advancing all the interests of the Redeemer's kingdom. This is done through financial support and encouragement to small, newly formed mission works and churches and by organizing special training and other events that promote the church in the areas of evangelism, women's ministries, children's ministries, Sunday school, and student ministries.

   Baptist Foundation of Indiana, Inc. d/b/a Indiana Baptist Foundation (Foundation) is a trust agency created by the Convention in 1968. As trust agency, the Foundation manages funds for the Convention, Indiana associations, Indiana member churches, and individual trusts. The members of the Convention approve the board of the Foundation.

2. SIGNIFICANT ACCOUNTING POLICIES:

   The significant accounting policies followed are described below to enhance the usefulness of the combined financial statements to the reader.

   ESTIMATES

   The preparation of combined financial statements in conformity with accounting standards 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

   PRINCIPLES OF COMBINATION

   The combined financial statements include the activities and balances of the Convention and Foundation (Organization). Intra-organization transactions are eliminated for combined financial statement presentation. The combined entity is referred to as the Organization in these combined financial statements.

   The combined financial statements of the Organization have been prepared on the accrual basis. Under the accrual basis of accounting, income is recognized when earned rather than when received. Expenses are recognized when incurred rather than when paid.

2. <u>SIGNIFICANT ACCOUNTING POLICIES, continued:</u>

PRINCIPLES OF TAXATION

The Organization is exempt from federal income taxes under Internal Revenue Service Code (Code) Section 501(c)(3) and is also exempt from state income taxes. Contributions to the Organization are deductible for federal income tax purposes. The Organization is considered publicly supported for purposes of the IRS private foundation regulations under Internal Revenue Code Section 509(a).

As of December 31, 2016 and 2015, the Organization had no uncertain tax positions that qualify for recognition or disclosure in the combined financial statements according to the *Income Tax* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

NET ASSETS

Unrestricted amounts are those currently available at the discretion of the board for use in the Organization's operations and those resources invested in land, buildings, and equipment, net of related debt.

Temporarily restricted amounts are those stipulated by donors for specific operating purposes or those not currently available for use until commitments regarding their use have been fulfilled.

Permanently restricted amounts are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity, and only the income is available as unrestricted or temporarily restricted per endowment agreements.

CASH AND CASH EQUIVALENTS AND CREDIT RISK

For purposes of the combined statements of cash flows, cash and cash equivalents include cash on hand and in the bank. While at times the Organization's cash and cash equivalents may exceed federally insured limits, the Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on these accounts.

ACCOUNTS RECEIVABLE

Accounts receivable consists of funds due from affiliated Southern Baptist agencies, accrued interest on investments and other miscellaneous receivables. Accounts receivable are reported net of allowance for uncollectible amounts as determined by management. Accounts receivable totaled $28,013 and $454,898 at December 31, 2016 and 2015, respectively. Management believes all receivable balances are collectible; therefore, no provision for uncollectible accounts was made.

CONTRIBUTIONS RECEIVABLE

Contributions receivable (unconditional promises to give) are recognized as income when made. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the pledges are to be received. Management believes all receivable balances are collectible; therefore, no provision for uncollectible accounts was made.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

PREPAID EXPENSES AND OTHER ASSETS
Prepaid expenses and other assets consist of various expenses paid in advance and inventory items. Inventory is reported at the lower of cost of market value and consists of office supply items used in printing and publication. Inventory totaled approximately $11,700 at December 31, 2016 and 2015, respectively.

ASSETS HELD FOR FUTURE MINISTRY
Assets held for future ministry consist of church properties that have been granted to the Convention. The Convention has planted new churches in these areas. Once the church plants are determined to be a viable ministry, the Convention will grant the property back to the church. During 2016, the Convention transferred title of these properties to the local church plants.

As of December 31, 2016, assets held for future ministry consist of a church property owned by the Foundation that was formerly in a land installment contract with a local church. Due to breach of contract, the Foundation retained ownership of the property and will transfer title of the property to a local Convention association in the first or second quarter of 2017.

INVESTMENTS
Investments are reported at fair value.

Investments with a fair value of $2,602,437 and $1,952,400 were held in investment portfolios with the Baptist Foundation of Oklahoma (BFO), Fidelity Investments, and Wesleyan Investment Foundation (WIF) at December 31, 2016 and 2015, respectively. These investments consist of church building loan funds and individual deposit accounts, and are reported at estimated fair value using reasonable valuation methodologies. Term investments held at BFO are cash and cash equivalents invested in church building loans of Southern Baptist churches and entities. Interest is paid at maturity.

CONCENTRATION OF CREDIT RISK
Financial instruments that potentially subject the Organization to credit risk include unsecured deposits with the Baptist Foundation of Oklahoma totaling $103,144 and $80,719 at December 31, 2016 and 2015, respectively.

LAND, BUILDINGS, EQUIPMENT, AND DEPRECIATION
Items capitalized as land, buildings, and equipment (including furniture and fixtures) are reported at cost or market value on the date of donation if donated. Depreciation is reported on the straight-line basis over the useful lives of the assets. Purchases equaling or exceeding $1,500 are capitalized and depreciated over a three to five year useful life for equipment and 30 years for buildings.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

LIABILITES UNDER TRUST AGREEMENTS
As trustee, the Organization administers irrevocable trusts, including charitable remainder unitrusts. These trusts provide the payment of lifetime distributions to the grantor or other designated beneficiaries. The present value of the income interests are reported as trust liabilities using federal discount and mortality tables. At the death of the lifetime beneficiaries, the trusts provide for the distribution of assets to designated remaindermen. The present value of the remainder interest of the Organization is reported as temporarily restricted contributions in the period received, temporarily restricted net assets, and as a reclassification to the unrestricted net assets or restricted per the trust agreement when the trust matures.

SUPPORT, REVENUE, AND RECLASSIFICATIONS
Support is recognized when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Organization. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions to the Cooperative Program of the Southern Baptist Convention (SBC) are based on a percent of the Cooperative Program gift as approved by the Organization.

Revenue is recognized when earned (see Note 11).

FUNCTIONAL ALLOCATION OF EXPENSES AND JOINT COSTS
Expenses, including all advertising costs, are reported when incurred. The costs of providing various program services and supporting activities have been summarized on a functional basis in the combined statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. The Organization incurred no joint costs for the years ended December 31, 2016 and 2015.

CONTRIBUTED SERVICES
Contributed services are recognized for those that improve or enhance property and equipment (as contributions and increases to the basis of land, buildings, and equipment) or for those that require specialized skills (as contributions and expenses). There were $35,458 and $34,605 in donated labor for the years ended December 31, 2016 and 2015, respectively.

Notes to combined financial statements

December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CONCENTRATION OF SUPPORT AND REVENUE

Revenue received by the Organization is primarily from churches within Indiana and affiliated agencies of the SBC. The Cooperative Program contributions come from churches in Indiana. The Organization has experienced 70-80 percent participation from churches in the state for this program, which represents approximately 37 percent, respectively, of the total support and revenue as of December 31, 2016 and 2015. Other program support is generated primarily from the North American Mission Board of the SBC.

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

The Organization uses appropriate valuation techniques to determine fair value based on inputs available. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available.

Fair values of assets measured on a recurring basis at December 31, 2016 and 2015, are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2016				
Investments:				
Exchange traded funds	$ 22,608	$ 22,608	$ -	$ -
Municipal bonds	15,298	-	15,298	-
Money market funds	2,564,531	2,564,531	-	-
Total investments	$ 2,602,437	$ 2,587,139	$ 15,298	$ -

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2015				
Investments:				
Exchange traded funds	$ 20,545	$ 20,545	$ -	$ -
Municipal bonds	15,513	-	15,513	-
Money market funds	1,916,342	1,916,342	-	-
Total investments	$ 1,952,400	$ 1,936,887	$ 15,513	$ -

Valuation techniques: The balanced pool assets consist of domestic and international equities, and fixed income instruments with quoted market prices. The fair value of the term investments with the BFO are based on cost, which approximates fair value. The fair value of publicly traded equities is determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of money market funds are based on cost.

ADVERTISING COSTS
The Organization expenses advertising costs as incurred. The Organization incurred advertising costs of $23,932 and $18,591 for the years ended December 31, 2016 and 2015, respectively.

RECLASSIFICATIONS
Certain reclassifications have been made to prior year combined financial statements to conform to the current year combined financial statement presentation. These reclassifications had no effect on the change in net assets.

Notes to combined financial statements

December 31, 2016 and 2015

3. INVESTMENTS:

Investments consist of:

	December 31, 2016	December 31, 2015
Exchange traded funds	$ 22,608	$ 20,545
Bonds	15,298	15,513
Money market funds	2,564,531	1,916,342
	$ 2,602,437	$ 1,952,400

Investment income and church loan interest income is reported as revenue in the combined statements of activities and changes in net assets and consists of:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Interest and dividends–unrestricted	$ 127,198	$ 79,998
Interest and dividends–temporarily restricted	45,229	43,435
	$ 172,427	$ 123,433

Notes to combined financial statements

December 31, 2016 and 2015

4. CHURCH LOANS RECEIVABLE:

Church loans receivable consist of church loans ranging in term from 2 to 30 years with 4.25 percent to 6.75 percent annually compounded interest rates. These receivables are collateralized by a security interest on the underlying church properties, which are all located in Indiana. An allowance of $10,934 and $25,000 was reported as of December 31, 2016 and 2015, respectively.

Loans receivable will mature as follows:

Year Ending December 31,	Principal Reduction
2017	$ 190,358
2018	184,524
2019	193,592
2020	200,788
2021	206,468
Thereafter	2,522,015
	$ 3,497,745

CREDIT QUALITY OF FINANCING RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES:
Allowance for credit losses and recorded investment in financing receivables consist of:

	December 31, 2016	December 31, 2015
Allowance for credit losses:		
Beginning balance	$ 25,000	$ 20,000
Charge-offs	(24,088)	-
Recoveries	5,022	-
Provision	5,000	5,000
	$ 10,934	$ 25,000
Financing receivables	$ 3,497,745	$ 2,783,563
Collectively evaluated for impairment	$ 3,497,745	$ 2,783,563

4. CHURCH LOANS RECEIVABLE, continued:

Credit Quality Indicators consist of:

Corporate Credit Exposure Credit Risk Profile Based on Payment Activity	December 31, 2016	 2015
Performing	$ 3,497,745	$ 2,770,073
Non-performing	-	13,490
	$ 3,497,745	$ 2,783,563

Age analysis of past due financing receivables consist of:

	December 31, 2016	 2015
30-60 days past due	$ -	$ -
61-90 days past due	-	-
Greater than 90 days	-	13,490
	-	13,490
Current	3,497,745	2,770,073
	$ 3,497,745	$ 2,783,563

5. LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment consist of:

	December 31, 2016	 2015
Land	$ 228,248	$ 228,248
Buildings	2,685,249	2,565,829
Furniture, fixtures, and equipment	523,571	430,319
Other improvements	846,964	842,383
Construction in process	504,754	16,080
	4,788,786	4,082,859
Less accumulated depreciation	(2,337,509)	(2,203,301)
	$ 2,451,277	$ 1,879,558

Notes to combined financial statements

December 31, 2016 and 2015

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:
Accounts payable and accrued expenses consist of:

	December 31,	
	2016	2015
Accounts payable–trade	$ 74,065	$ 93,987
Payables to other Southern Baptist agencies (see below)	419,990	390,101
Payroll taxes and accrued expenses	437	101
	$ 494,492	$ 484,189

Payables to other Southern Baptist agencies, which at times may include Cooperative Program, Lottie Moon, and Annie Armstrong funds, are normally distributed to their respective agencies shortly after the end of the fiscal year (see Note 12).

7. DEPOSITS HELD FOR OTHERS:

Deposits held for others are available only to individuals, churches, and other organizations affiliated with the SBC. Deposits are redeemable upon 30 days advance written notice. Interest is variable and compounded monthly. At December 31, 2016 and 2015, the annual percentage rates ranged from 2.00 to 3.00 and 1.00 to 3.31 percent, respectively. As of December 31, 2016 and 2015, all investors were affiliated with the Convention.

The fair value of these investment accounts is the amount payable on demand at the balance sheet date of presentation.

As of December 31, 2016 and 2015, the Foundation had investors with aggregate balances of $100,000 or more, respectively. The balances over $100,000 are distributed as follows:

	December 31, 2016		
Investment Account Balances	Number of Investors	Aggregate Balance	Percentage of Deposit Held for Others
$0 – $100,000	33	$ 1,185,280	36%
$100,001 – $200,000	9	868,639	26%
$200,001– $300,000	1	269,076	8%
$300,001– $400,000	0	-	0%
$400,001– $500,000	1	444,895	14%
$500,001– $600,000	1	520,585	16%
	45	$ 3,288,475	100%

	December 31, 2015		
Investment Account Balances	Number of Investors	Aggregate Balance	Percentage of Deposit Held for Others
$0 – $100,000	27	$ 970,199	52%
$100,001 – $200,000	2	112,057	6%
$200,001– $300,000	1	264,911	14%
$300,001– $400,000	0	-	0%
$400,001– $500,000	0	-	0%
$500,001– $600,000	1	530,124	28%
	31	$ 1,877,291	100%

8. CAPITAL LEASE:

During 2016, the Convention entered into a capital lease agreement for certain office equipment. The net book value of the related equipment is as follows:

	December 31, 2016	December 31, 2015
Office equipment, at capitalized cost	$ 28,314	$ -
Less accumulated amortization (included within accumulated depreciation)	(4,441)	-
	$ 23,873	$ -

Future minimum payments under capital lease are as follows:

Year Ending December 31,	
2017	$ 7,332
2018	7,332
2019	7,332
2020	4,278
	26,274
Less: amount representing interest	(2,051)
	$ 24,223

9. NET ASSETS:

Net assets are classified according to their nature and purpose and consist of:

	December 31, 2016	December 31, 2015
Unrestricted:		
Undesignated	$ (910,698)	$ (459,012)
Board designated	351,390	326,899
Endowment net assets below historic principal	(9,740)	(22,844)
	(569,048)	(154,957)
Investment in land, buildings, and equipment		
Net land, buildings, and equipment	2,451,277	1,879,558
Less capital lease liability	(24,223)	-
	2,427,054	1,879,558
Total unrestricted	1,858,006	1,724,601

(continued)

Notes to combined financial statements

December 31, 2016 and 2015

9. NET ASSETS, continued:

	December 31, 2016	December 31, 2015
Temporarily restricted:		
Foundation related funds	$ 612,521	$ 780,102
New Works	403,729	729,521
North American Mission Board	129,221	96,705
Highland Lakes camp development	58,817	84,692
Disaster relief	38,548	26,114
Church enrichment	27,614	31,652
Special W.M.U. fund/women's ministries	26,478	32,596
Domestic hunger	10,549	12,469
International partnerships	6,388	3,715
Collegiate ministries	4,523	2,300
Evangelism promotion	2,833	3,232
Stewardship promotion	515	528
Administrative	-	17,344
Total temporarily restricted	1,321,736	1,820,970
Permanently restricted:		
Baptist Foundation–corpus is unexpendable, earnings may be used for donor specified activity	843,732	823,130
Total net assets	$ 4,023,474	$ 4,368,701

ENDOWMENT NET ASSETS

The *Endowments* topic of the FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization and enhanced disclosure information to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policy, and related investment policy of its endowment funds.

The Foundation's endowment consists of individual funds established to provide financial support to the Foundation in perpetuity. 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.

9. NET ASSETS, continued:

INTERPRETATION OF RELEVANT LAW

The Board of Directors has interpreted the Indiana State Prudent Management of Institutional Funds Act (ISPMIFA) so that the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment that are made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added or deducted from the fund.

The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by ISPMIFA. In accordance with ISPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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 ISPMIFA requires the Foundation to retain as a fund of perpetual duration. As of December 31, 2016 and 2015, the Foundation had deficiencies totaling $9,740 and $22,844, respectively. In accordance with GAAP, deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

9. NET ASSETS, continued:

RETURN OBJECTIVES AND RISK PARAMETERS

The Foundation has adopted investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended over the long-term to earn an annualized total-rate-of-return of five percent, net of expenses and fees. Actual returns in any given year will of course vary.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVE

To satisfy its long-term rate-of-return objectives, the Foundation seeks investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on fixed investments to achieve its long-term return objectives within prudent risk constraints.

HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The Foundation uses a method based upon the total return on assets to determine the amounts distributable from endowments held as trustee and amounts appropriated for expenditure for endowments under which the Foundation is the income beneficiary in conformity with ISPMIFA. In each quarter of the year, the net earnings from investments is allocated to the trusts based on the balance of corpus and undistributed earnings. The net earnings come from any traditional income (bond interest and stock dividends) earned in that quarter and is supplemented from the trust's net appreciation over the fair value of the original gift. If the market value for a given trust is less than the fair value of the original gift in any given quarter, the portion of net earnings that is not traditional income is reinvested and will not be held in the trust for distribution.

Notes to combined financial statements

December 31, 2016 and 2015

9. NET ASSETS, continued:

Changes in endowment net assets for the fiscal year ended December 31, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (22,844)	$ 11,199	$ 823,130	$ 811,485
Investment return:				
Net appreciation (realized and unrealized)	-	30,477	-	30,477
Total investment return	-	30,477	-	30,477
Change in value	-	(13,661)	(2,744)	(16,405)
Contributions	-	-	23,158	23,158
Transfers	-	(188)	188	-
Reclassification of endowment assets for preservation of historic dollar value	13,104	(13,104)	-	-
	13,104	(26,953)	20,602	6,753
Endowment net assets, end of year	$ (9,740)	$ 14,723	$ 843,732	$ 848,715

Changes in endowment net assets for the fiscal year ended December 31, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (47,672)	$ 8,114	$ 834,683	$ 795,125
Investment return:				
Net appreciation (realized and unrealized)	-	36,098	-	36,098
Total investment return	-	36,098	-	36,098
Change in value	-	(7,972)	(13,021)	(20,993)
Contributions	-	-	1,255	1,255
Transfers	-	(213)	213	-
Reclassification of endowment assets for preservation of historic dollar value	24,828	(24,828)	-	-
	24,828	(33,013)	(11,553)	(19,738)
Endowment net assets, end of year	$ (22,844)	$ 11,199	$ 823,130	$ 811,485

Notes to combined financial statements

December 31, 2016 and 2015

10. EMPLOYEE BENEFIT PLANS:

RETIREMENT BENEFITS

All employees working more than one-half time are covered by a 403(b) retirement plan. Employer contributions depend on term of service but do not exceed 15 percent of salary and housing allowances. Employees may also elect to reduce their salary and make tax-free contributions to the plan. Employee contributions are limited in amount by IRS regulations. Employer payments to 403(b) retirement plans were $124,908 and $117,413 for the years ended December 31, 2016 and 2015, respectively.

OTHER EMPLOYEE BENEFITS

All employees working 30 or more hours per week are provided life, medical, and disability coverage. The medical coverage extends to all eligible staff. The coverage also extends to administrative staff dependents hired before 2005 and requires no premium participation by the employee.

11. REVENUE:

Revenue consists of:

	Year Ended December 31, 2016	2015
Gain on sale of property	$ -	$ 732,491
Registration and event fees	582,931	680,577
Contributed services	35,458	34,605
IBF management fees	21,321	22,455
Other	12,135	12,839
	$ 651,845	$ 1,482,967

12. AGENCY ASSETS AND LIABILITIES:

The Organization receives and remits designated funds from and on behalf of multiple local churches. Some of these funds constitute an agency relationship; they are Lottie Moon, Annie Armstrong, and World Hunger. The assets are commingled in cash, and the liabilities are included in accounts payable (see Note 6). The agency liabilities included in accounts payable at December 31, 2016 and 2015, were $419,990 and $390,101, respectively.

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK:

Accounting principles generally accepted in the United States of America require all entities to disclose certain information about their financial instruments. Specifically, all entities are required to disclose the risk of an accounting loss from a financial instrument. The possibility that a loss may occur from the failure of another party to perform according to the terms of a contract represents credit risk.

The Foundation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments are commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the combined statements of financial position. The contract amounts of those instruments reflect the extent of involvement the Foundation has in those particular classes of financial instruments.

The Foundation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Foundation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments are fixed as to the maximum dollar amount that is available to a particular customer. The making of the commitment itself may require the payment of a fee. Not all commitments have the full amount of the approved funds advanced upon execution of the loan, and some do not fully utilize the entire commitment established. Consequently, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2016, the Foundation did not have any outstanding loan commitments.

The credit worthiness of each loan applicant is assessed on a case-by-case basis. The Foundation makes loans only to Southern Baptist organizations that would qualify under Section 501(c)(3) of the Code as tax-exempt organizations. The purpose of the loans is to enable churches, schools, and other organizations associated with Southern Baptists to acquire and develop land, build facilities, or remodel and expand existing facilities with reasonable financing costs. Other credit considerations are represented by the terms of the loan, loan to value ratios, and other credit factors. Currently, the interest rate charged is 5.00 percent to 6.00 percent. The Foundation maintains a policy to review all loans monthly to determine past due or delinquent status based on contractual terms and how recently payments have been received. The Foundation maintains an allowance on the receivables, which was $10,934 and $25,000 as of December 31, 2016 and 2015, respectively. As of December 31, 2016, the Foundation did not have any delinquent loans. As of December 31, 2015, the Foundation considered one loan delinquent.

Notes to combined financial statements

December 31, 2016 and 2015

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK, continued:

In most instances, the ability of these organizations to repay loans will depend primarily upon the contributions they receive from their constituents and fees or other related charges assessed for services rendered. The number of constituents of these organizations, and the amount of contributions they receive may fluctuate. Further, the Foundation is motivated by factors other than commercial and/or profit motives only. This may affect how it deals with its borrowers.

14. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

As disclosed under the caption “Financial Instruments With Off-Balance Sheet Credit Risk,” the Foundation makes loans only to not-for-profit organizations that would qualify under Section 501(c)(3) of the Code as tax-exempt organizations. These consist of churches, schools, and other organizations associated with Southern Baptists. As of December 31, 2016 and 2015, the Foundation’s loan receivables from those organizations are as disclosed in Note 4.

15. COMMITMENTS:

OPERATING LEASE

Lease expense was $72,807 and $67,883 for the years ended December 31, 2016 and 2015, respectively. During 2010, the Organization began entering into new operating leases for cars that expire based on miles, not a monthly term. Due to the usage variable, the maximum possible lease expense is included in the amounts reported below. Future lease payments are due as follows:

Year Ending December 31,	
2017	$ 60,708
	$ 60,708

CONSTRUCTION PROJECT

During the year ended December 31, 2016, the Convention entered into two contracts for approximately $456,000 and $70,000 to build a new worship center at Highland Lakes Baptist Camp, as well as expand lobby space at the Convention’s main office. As of December 31, 2016, the Convention had incurred costs of approximately $504,000, which is reported as construction in progress as part of property and equipment. The remaining balance will be due as the work is completed during the year ending December 31, 2017.

Notes to combined financial statements

December 31, 2016 and 2015

16. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS:

The Convention provides health care benefits to retired employees. These benefits are not paid in accordance with a formal written plan, and while there has been a past practice of paying these benefits, the Convention is not legally required to continue to pay any of these benefits in the future. At the discretion of the executive board, the Convention currently funds these benefits out of ongoing operations and the benefits are subject to the future availability of funds. Certain benefits are contributory; other benefits are non-contributory based on age and years of service. In accordance with the *Compensation–Retirement Benefits* topic of the FASB ASC, the Convention is required to recognize the funded status of its post retirement benefits measured as the difference between plan assets at fair market value and the benefit obligation in its combined statements of financial position.

Effective in 2000, the Convention began paying the premiums for Medicare supplement coverage based on years of service for those retiring from the Convention. Employees retiring from the Convention must have a minimum of 10 years of service and be at least 60 years or older to be eligible.

The post-retirement health care benefit obligation was calculated as of December 31, 2016, using the previous benefit provisions that included coverage for Medicare supplement coverage.

The plan is funded when payments are made as premiums become due. Total payments under the plan were $18,102 and $17,581 for the years ended December, 31, 2016 and 2015, respectively. The cost is allocated by function and is included in administration costs.

16. POST RETIREMENT BENEFITS OTHER THAN PENSIONS, continued:

In September 2009, FASB issued the provisions of the *Compensation–Retirement Benefits* topic of the FASB ASC. The topic requires an employer that sponsors a defined benefit post-retirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its combined statements of financial position and to include enhanced disclosure provisions of the topic for the fiscal year ending December 31, 2008, and thereafter.

	December, 31	
	2016	2015
Postretirement health care benefits obligation:		
Retirees receiving benefits	$ 452,001	$ 446,627
Active employees–fully eligible to receive benefits	348,321	132,176
Active employees–not yet fully eligible to receive benefits	141,679	326,030
	942,001	904,833
Fair value of plan assets at December 31	-	-
Funded status	$ (942,001)	$ (904,833)
Accumulated benefit cost recognized in the combined statements of financial position	$ 942,001	$ 904,833
Net periodic benefit costs for each year ended December 31:		
Service cost	$ 26,944	$ 27,340
Interest cost	38,295	33,528
Change in assumptions	100,762	19,343
Actuarial change	(110,731)	(21,519)
	$ 55,270	$ 58,692

Notes to combined financial statements

December 31, 2016 and 2015

16. POST RETIREMENT BENEFITS OTHER THAN PENSIONS, continued:

	December, 31	
	2016	2015
Weighted average assumptions:		
Discount rate	3.95%	4.15%
Benefit obligations	5.00%	5.00%

As of December 31, 2016 and 2015, the mortality assumptions are based on generational application of the RPEC_2014 Mortality Projection Model, using the parameters from the SOA's RP-2014 Mortality Tables Report and their Mortality Improvement Scale MP-2016 and 2015 MP-2015 report, respectively.

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

Year Ending December 31,	
2017	$ 26,195
2018	32,970
2019	37,979
2020	39,858
2021	41,667
2022-2026	241,118
	$ 419,787

	Year Ended December 31,	
	2016	2015
Net periodic benefit cost	$ 55,270	$ 58,692
Employer contributions	$ 18,102	$ 17,581
Plan participants' contributions	$ -	$ -
Benefits paid	$ 18,102	$ 17,581

16. POST RETIREMENT BENEFITS OTHER THAN PENSIONS, continued:

Changes in discount rate, mortality assumptions, and demographics constitute a change in estimate. The effect of the change in estimate reported in the combined financial statements was $100,762 and $19,343 for the years ended December 31, 2016 and 2015, respectively.

For measurement purposes, 100 percent of those currently electing coverage are assumed to take post-retirement medical benefits upon retirement. Upon Medicare eligibility, retirees are enrolled in a Guidestone Medicare supplement insured plan. The assumed rate of increase in per capita cost of health care benefits was 5.25 percent and 5.00 percent for 2016 and 2015, respectively, and is assumed to decrease linearly each year to an ultimate rate of 4.30 percent.

17. MANAGEMENT'S DISCUSSION REGARDING FINANCIAL CONDITION:

In order to restore negative unrestricted net assets, the Convention board has directed management to increase the monitoring of both revenue and expenditures. Program services and overhead expenses have been reviewed and reduced as necessary, and increased contributions are being sought through a cooperative program challenge with Southern Baptist Convention churches throughout the state to produce positive cash flow.

The Convention's board and management understand these measures are ongoing and will continue to pursue future additional processes to help curtail further deficit operations, restore negative unrestricted net assets, and lead to fiscal operations that will enable the accomplishment of its mission and vision.

18. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the combined financial statements were available to be issued. Subsequent events after that date have not been evaluated.