STATE CONVENTION OF BAPTISTS IN INDIANA, INCORPORATED AND SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2017 and 2016

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CAPINCROUSE LLP

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the State Convention of Baptists in Indiana, Incorporated and Subsidiary (Organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2017 and 2016, and the changes in consolidated 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 8, 2018

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Consolidated statements of financial position

December 31	2017	2016
Assets		
Cash and cash equivalents	$ 385,228	$ 604,873
Accounts and other receivable	12,191	28,013
Prepaid expenses and other assets	40,952	28,542
Church loans receivable, net	4,013,023	3,486,811
Assets held for future ministry	163,333	107,510
Investments	2,861,097	2,602,437
Land, buildings, and equipment, net	2,366,823	2,451,277
Total assets	$ 9,842,647	$ 9,309,463
Liabilities		
Accounts payable and accrued expenses	$ 245,949	$ 494,492
Deposits held for others	4,068,438	3,288,475
Deferred revenue	48,572	18,182
Liabilities under trust agreements	526,604	518,616
Capital lease liability	17,603	24,223
Accumulated post-retirement benefits	806,640	942,001
Total liabilities	5,713,806	5,285,989
Net Assets		
Unrestricted	1,845,371	1,858,006
Temporarily restricted	1,419,372	1,321,736
Permanently restricted	864,098	843,732
Total net assets	4,128,841	4,023,474
Total liabilities and net assets	$ 9,842,647	$ 9,309,463

Consolidated statements of activities and changes in net assets

For the years ended December 31	2017	2016
Changes in unrestricted net assets:		
Revenues, gains, and other support:		
Cooperative Program	**$ 2,290,759**	$ 2,392,507
Southern Baptist Convention affiliates	**813,181**	1,188,416
Revenue	**432,013**	459,279
Investment income	**159,311**	127,198
Other support	**29,132**	58,898
	3,724,396	4,226,298
Net assets released by satisfaction of purpose restrictions	**530,722**	1,238,588
Total unrestricted revenues, gains, and other support	**4,255,118**	5,464,886
Expenses:		
Program expenses:		
Missions-State	**937,730**	1,683,411
Camp operations	**878,154**	911,560
SBC Cooperative Program	**846,304**	875,456
Baptist Foundation	**391,375**	215,654
Church enrichment	**152,532**	310,113
Women's/children's ministries	**143,359**	164,292
Evangelism and prayer	**129,925**	222,247
Pastor annuity supplement	**63,702**	60,885
Communications	**39,153**	38,580
Student ministries	**33,535**	43,758
Foreign missions	**10,754**	7,027
	3,626,523	4,532,983
Administrative expenses	**629,369**	774,566
Fund-raising expenses	**11,861**	23,932
Total expenses	**4,267,753**	5,331,481
Total changes in unrestricted net assets	**(12,635)**	133,405

(continued)

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

For the years ended December 31		2017		2016
Changes in temporarily restricted net assets:				
Southern Baptist Convention affiliates		**139,596**		186,992
Contributions		**436,305**		507,133
Investment income		**52,457**		45,229
		628,358		739,354
Net assets released by satisfaction of purpose restrictions		**(530,722)**		(1,238,588)
Total changes in temporarily restricted net assets		**97,636**		(499,234)
Changes in permanently restricted net assets:				
Contributions		**21,588**		23,346
Actuarial change		**(1,222)**		(2,744)
Total changes in permanently restricted net assets		**20,366**		20,602
Changes in net assets		**105,367**		(345,227)
Net assets, beginning of year		**4,023,474**		4,368,701
Net assets, end of year	**$**	**4,128,841**	$	4,023,474

Consolidated statements of cash flows

For the years ended December 31	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 105,367**	$ (345,227)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Loss on disposal of property and equipment	**12,625**	-
Loss on assets held for future ministry	**107,510**	-
Unrealized gain on investments	**(4,744)**	-
Depreciation and amortization	**186,841**	159,422
Gift of assets held for future ministry	**(163,333)**	-
Property granted to church plant	**-**	288,000
Provision for doubtful church loans receivable	**31,439**	5,000
Contributions for long-term purposes	**(21,588)**	(23,346)
Change in value–liability under trust agreement	**27,103**	(49,435)
Changes in operating assets and liabilities:		
Accounts receivable	**15,822**	402,797
Prepaid expense and other assets	**(12,410)**	12,151
Accounts payable and accrued expenses	**(248,543)**	10,303
Deposits held for others	**779,963**	1,411,184
Deferred revenue	**30,390**	10,744
Accumulated post-retirement benefits	**(135,361)**	37,168
Net cash provided (used) by operating activities	**711,081**	1,918,761
Cash flows from investing activities:		
Purchases of investments	**(2,795,075)**	(2,990,840)
Principal repayments–church loan investments	**637,099**	879,752
Loans made to churches	**(1,194,750)**	(1,696,422)
Proceeds from investments	**2,541,159**	2,340,803
Purchases and construction of property and equipment	**(115,012)**	(702,827)
Net cash used by investing activities	**(926,579)**	(2,169,534)
Cash flows from financing activities:		
Payments on liability under trust agreement	**(19,115)**	(19,270)
Payments on capital lease	**(6,620)**	(4,091)
Contributions for long-term purposes	**21,588**	23,346
Net cash provided by financing activities	**(4,147)**	(15)
Change in cash and cash equivalents	**(219,645)**	(250,788)
Cash and cash equivalents, beginning of year	**604,873**	855,661
Cash and cash equivalents, end of year	**$ 385,228**	$ 604,873
SUPPLEMENTAL DISCLOSURES:		
Noncash contributions	**$ 3,307**	$ 35,458
Interest paid	**$ 85,517**	$ 58,868
Conversion of loan receivable to asset held for future ministry	**$ -**	$ 107,510
Equipment financed via capital lease arrangement	**$ -**	$ 28,314

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. The Convention also operates the Highland Lands Baptist Camp, which is a retreat, camp and conference center located on over 400 acres in Morgan County, Indiana.

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 Convention appoints the Foundation's board of directors. Accordingly, under the *Consolidation* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Foundation's financial results are consolidated with those of the Convention.

2. SIGNIFICANT ACCOUNTING POLICIES:

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

ESTIMATES

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

PRINCIPLES OF CONSOLIDATION

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

The consolidated 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. SIGNIFICANT ACCOUNTING POLICIES, continued:

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). The Organization is subject to federal income tax on any unrelated business taxable income.

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 consolidated 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. Management believes all receivable balances are collectible; therefore, no provision for uncollectible accounts was made.

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. At December 31, 2017 and 2016, inventory for both years totaled approximately $11,692.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

ALLOWANCE FOR LOAN LOSSES
Church building loans are presented net of an allowance for loan losses. The adequacy of the allowance is determined by the Foundation based on a number of factors, including the collection of loans and evaluation of underlying collateral values, loss experience, specific identification and review of problem loans, quality of the loan portfolio and business and economic conditions. However, ultimate losses may differ from these estimates.

ASSETS HELD FOR FUTURE MINISTRY
Assets held for future ministry consist of church properties that have been granted to the Convention, which are used to plant new churches. Once the church plants are determined to be a viable ministry, the Convention grants the property to the church. As of December 31, 2016, assets held for future ministry consists 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 in 2016 and recognized a full loss in 2017 as the property was sold in a tax sale.

INVESTMENTS
Investments are reported at fair value.

Investments were held in investment portfolios with the Baptist Foundation of Oklahoma (BFO), Fidelity Investments, and Wesleyan Investment Foundation (WIF). Investments held at WIF consist of unsecured deposit accounts, and are reported at cost plus accrued interest. 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. Investments held at Fidelity consist of money market funds (valued at cost), exchange traded funds and bonds (which are held at fair value).

CONCENTRATION OF CREDIT RISK
Financial instruments that potentially subject the Organization to credit risk include unsecured deposits with the Baptist Foundation of Oklahoma totaling $35,140 and $103,144 at December 31, 2017 and 2016, 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 consolidated 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 consolidated 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, 2017 and 2016.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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 $3,307 and $35,458 in donated labor for the years ended December 31, 2017 and 2016, respectively.

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 44 percent and 37 percent, respectively, of the total support and revenue as of December 31, 2017 and 2016. Other program support is received from the North American Mission Board of the SBC, which represents approximately 18 percent and 20 percent, respectively, of the total support and revenue as of December 31, 2017 and 2016.

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

The *Fair Value Measurements and Disclosure* topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. 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 are not available.

The Organization’s investments consist of exchange traded funds, municipal bonds, and money market funds. Money market funds are excluded from the fair value hierarchy as they are held at cost plus accrued interest. The exchange traded funds are reported at fair value based on quoted market prices in active markets for identical assets, which is Level 1 of the fair value hierarchy. The fair value of municipal bonds is based on yields currently available on comparable securities of issuers with similar credit ratings, which is Level 2 of the fair value hierarchy.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued
Fair values of assets measured on a recurring basis at December 31, 2017 and 2016, are as follows:

	Fair Value	Level 1	Level 2	Level 3
As of December 31, 2017				
Investments:				
Exchange traded funds– large blend	$ 26,747	$ 26,747	$ -	$ -
Investments not held at fair value:				
Money market funds	2,834,350			
Total investments	$ 2,861,097			

	Fair Value	Level 1	Level 2	Level 3
As of December 31, 2016				
Investments:				
Exchange traded funds– large blend	$ 22,608	$ 22,608	$ -	$ -
Municipal bonds	15,298	-	15,298	-
	37,906	22,608	15,298	-
Investments not held at fair value:				
Money market funds	2,564,531			
Total investments	$ 2,602,437			

ADVERTISING COSTS
The Organization expenses advertising costs as incurred. The Organization incurred advertising costs of $11,861 and $23,932 for the years ended December 31, 2017 and 2016, respectively.

RECLASSIFICATIONS
Certain amounts from the prior year have been reclassified to conform with the current year presentation. As a result, revenue and expenses were both decreased by $192,566 for the year ended December 31, 2016, in order to eliminate transactions between the Highland Lakes Baptist Camp and the Convention that were not previously eliminated. This reclassification had no effect on the change in net assets for the year ended December 31, 2016.

3. INVESTMENTS:

Investments consist of:

	December 31, 2017	December 31, 2016
Exchange traded funds	$ 26,747	$ 22,608
Bonds	-	15,298
Money market funds	2,834,350	2,564,531
	$ 2,861,097	$ 2,602,437

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

	Year Ended December 31, 2017	Year Ended December 31, 2016
Interest and dividends–unrestricted	$ 159,311	$ 127,198
Interest and dividends–temporarily restricted	52,457	45,229
	$ 211,768	$ 172,427

4. CHURCH LOANS RECEIVABLE:

Church loans receivable consist of church loans ranging in term from 2 to 30 years with 4.50 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 $42,373 and $10,934 was reported as of December 31, 2017 and 2016, respectively.

Loans receivable will mature as follows:

Year Ending December 31,	Principal Reduction
2018	$ 210,921
2019	216,666
2020	227,954
2021	239,834
2022	252,336
Thereafter	2,907,685
	4,055,396
Less: allowance for loan losses	(42,373)
	$ 4,013,023

CREDIT QUALITY OF FINANCING RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES:

Allowance for credit losses and recorded investment in financing receivables consist of:

	December 31, 2017	December 31, 2016
Allowance for credit losses:		
Beginning balance	$ 10,934	$ 25,000
Charge-offs	-	(24,088)
Recoveries	-	5,022
Provision	31,439	5,000
	$ 42,373	$ 10,934
Financing receivables	$ 4,013,023	$ 3,497,745
Collectively evaluated for impairment	$ 4,013,023	$ 3,497,745

Notes to consolidated financial statements

December 31, 2017 and 2016

4. CHURCH LOANS RECEIVABLE, continued:
Credit Quality Indicators consist of:

Corporate Credit Exposure Credit Risk Profile Based on Payment Activity	December 31, 2017	 2016
Performing	$ 3,971,934	$ 3,497,745
Non-performing	41,089	-
	$ 4,013,023	$ 3,497,745

Age analysis of past due financing receivables consist of:

	December 31, 2017	 2016
30-60 days past due	$ -	$ -
61-90 days past due	-	-
Greater than 90 days	-	-
	-	-
Current	4,013,023	3,497,745
	$ 4,013,023	$ 3,497,745

Notes to consolidated financial statements

December 31, 2017 and 2016

5. LAND, BUILDINGS, AND EQUIPMENT:
Land, buildings, and equipment consist of:

	December 31,	
	2017	2016
Land	$ 228,248	$ 228,248
Buildings	3,289,093	2,685,249
Furniture, fixtures, and equipment	505,145	523,571
Other improvements	842,919	846,964
Construction in process	-	504,754
	4,865,405	4,788,786
Less accumulated depreciation	(2,498,582)	(2,337,509)
	$ 2,366,823	$ 2,451,277

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

	December 31,	
	2017	2016
Accounts payable–trade	$ 42,687	$ 74,065
Payables to other Southern Baptist agencies (see below)	202,996	419,990
Payroll taxes and accrued expenses	266	437
	$ 245,949	$ 494,492

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, 2017 and 2016, the annual percentage rates ranged from 1.00 to 3.00 and 2.00 to 3.00 percent, respectively. As of December 31, 2017 and 2016, all investors were affiliated with the Convention.

The fair value of these investment accounts is the amount payable on demand at the consolidated statements of financial position date of presentation.

As of December 31, 2017 and 2016, the Foundation had investors with aggregate balances of $100,000 or more, respectively. The balances over $100,000 are distributed as follows:

	December 31, 2017		
Investment Account Balances	Number of Investors	Aggregate Balance	Percentage of Deposit Held for Others
$0 – $100,000	38	$ 1,286,797	32%
$100,001 – $200,000	12	1,549,362	38%
$200,001– $300,000	1	273,191	7%
$300,001– $400,000	0	-	0%
$400,001– $500,000	1	448,456	11%
$500,001– $600,000	1	510,632	12%
	53	$ 4,068,438	100%

	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%

Notes to consolidated financial statements

December 31, 2017 and 2016

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, 2017	December 31, 2016
Office equipment, at capitalized cost	$ 28,314	$ 28,314
Less accumulated amortization (included within accumulated depreciation)	(10,104)	(4,441)
	$ 18,210	$ 23,873

Future minimum payments under capital lease are as follows:

Year Ending December 31,	
2018	$ 7,698
2019	7,698
2020	3,216
	18,612
Less: amount representing interest	(1,009)
	$ 17,603

9. NET ASSETS:

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

	December 31, 2017	December 31, 2016
Unrestricted:		
Undesignated	$ (685,188)	$ (910,698)
Board designated	181,679	351,390
Endowment net assets below historic principal	(340)	(9,740)
	(503,849)	(569,048)
Investment in land, buildings, and equipment:		
Net land, buildings, and equipment	2,366,823	2,451,277
Less capital lease liability	(17,603)	(24,223)
	2,349,220	2,427,054
Total unrestricted	1,845,371	1,858,006

(continued)

Notes to consolidated financial statements

December 31, 2017 and 2016

9. NET ASSETS, continued:

	December 31, 2017	December 31, 2016
Temporarily restricted:		
Foundation related funds	$ 590,987	$ 612,521
New Works	569,991	403,729
North American Mission Board	136,611	129,221
Disaster relief	48,872	38,548
Special W.M.U. fund/women's ministries	23,022	26,478
International partnerships	16,045	6,388
Highland Lakes camp development	13,657	58,817
Domestic hunger	7,475	10,549
Church enrichment	7,000	27,614
Collegiate ministries	5,423	4,523
Evangelism promotion	289	2,833
Stewardship promotion	-	515
Total temporarily restricted	1,419,372	1,321,736
Permanently restricted:		
Baptist Foundation–corpus is unexpendable, earnings may be used for donor specified activity	597,234	575,647
Charitable remainder trusts	266,864	268,085
Total permanently restricted	864,098	843,732
Total net assets	$ 4,128,841	$ 4,023,474

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.

9. NET ASSETS, continued:

ENDOWMENT NET ASSETS, continued

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.

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, 2017 and 2016, the Foundation had deficiencies totaling $340 and $9,740, 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.

9. NET ASSETS, continued:

Changes in endowment net assets for the fiscal year ended December 31, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (9,740)	$ 14,723	$ 843,732	$ 848,715
Investment return:				
Net appreciation (realized and unrealized)	-	36,622	-	36,622
Total investment return	-	36,622	-	36,622
Change in value	-	(8,665)	(1,222)	(9,887)
Contributions	-	-	21,309	21,309
Transfers	-	(279)	279	-
Reclassification of endowment assets for preservation of historic dollar value	9,400	(9,400)	-	-
	9,400	(18,344)	20,366	11,422
Endowment net assets, end of year	$ (340)	$ 33,001	$ 864,098	$ 896,759

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

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 $85,821 and $124,908 for the years ended December 31, 2017 and 2016, 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. Expenses for these other employee benefits were $187,890 and $213,298 for the years ended December 31, 2017 and 2016, respectively.

11. REVENUE:

Revenue consists of:

	Year Ended December 31, 2017	2016
Registration and event fees	$ 401,696	$ 390,365
Contributed services	3,307	35,458
IBF management fees	18,290	21,321
Other	8,720	12,135
	$ 432,013	$ 459,279

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, 2017 and 2016, were $202,996 and $419,990, 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 consolidated 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, 2017, 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 $42,373 and $10,934 as of December 31, 2017 and 2016, respectively. As of December 31, 2016, a delinquent land installment contract was considered in default. This prompted the Foundation to cancel the contract, which resulted in a reclassification of the outstanding balance from a loan receivable to asset held for future ministry. Although there were no delinquent loans as of December 31, 2017, there was one loan which was considered non-performing because a church announced it will be closing in 2018 and the collateral value was not sufficient to cover the loan balance. The Foundation estimates its allowance for loan losses is sufficient to cover losses in its loan portfolio.

Notes to consolidated financial statements

December 31, 2017 and 2016

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, 2017 and 2016, the Foundation's loan receivables from those organizations are as disclosed in Note 4.

15. COMMITMENTS:

OPERATING LEASE

Operating lease expense was $52,231 and $65,427 for the years ended December 31, 2017 and 2016, 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,	
2018	$ 42,744
	$ 42,744

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 consolidated 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, 2017, 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 $21,209 and $18,102 for the years ended December, 31, 2017 and 2016, respectively. The cost is allocated by function and is included in administration costs.

Notes to consolidated financial statements

December 31, 2017 and 2016

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 consolidated 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, 2017	December 31, 2016
Postretirement health care benefits obligation:		
Retirees receiving benefits	$ 421,769	$ 452,001
Active employees–fully eligible to receive benefits	208,242	348,321
Active employees–not yet fully eligible to receive benefits	176,629	141,679
	806,640	942,001
Fair value of plan assets	-	-
Funded status	$ (806,640)	$ (942,001)
Accumulated benefit cost recognized in the consolidated statements of financial position	$ 806,640	$ 942,001
Net periodic benefit costs for each year ended December 31:		
Service cost	$ 29,429	$ 26,944
Interest cost	37,859	38,295
Change in assumptions	(25,483)	100,762
Actuarial change	(155,957)	(110,731)
	$ (114,152)	$ 55,270

16. POST RETIREMENT BENEFITS OTHER THAN PENSIONS, continued:

	December 31, 2017	December 31, 2016
Weighted average assumptions:		
Discount rate	3.47%	3.95%

As of December 31, 2017 and 2016, 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-2017 and MP-2016 report, respectively.

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

Year Ending December 31,	
2018	$ 26,479
2019	30,412
2020	31,476
2021	32,484
2022	33,427
2023-2026	196,333
	$ 350,611

	Year Ended December 31, 2017	Year Ended December 31, 2016
Net periodic benefit cost	$ (114,152)	$ 55,270
Employer contributions	$ 21,209	$ 18,102
Plan participants' contributions	$ -	$ -
Benefits paid	$ 21,209	$ 18,102

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 consolidated financial statements was ($25,483) and $100,762 for the years ended December 31, 2017 and 2016, 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 3.60 percent and 7.50 percent for medical and prescription benefits, respectively. It is assumed to decrease linearly over 8 years to ultimate rates of 3.60 percent and 5.25 percent for medical and prescription benefits, respectively.

17. RELATED PARTY TRANSACTIONS:

Related party transactions consist of:

	December 31,	
	2017	2016
Deposits held for members of Convention and Foundation board and management	$ 90,455	$ 190,907

18. MANAGEMENT'S DISCUSSION REGARDING FINANCIAL CONDITION:

For the year ended December 31, 2017, the Convention reduced its deficit in unrestricted-undesignated net assets by approximately $226,000. In order to continue restoring negative unrestricted net assets, the Convention board and management have been actively monitoring both revenue and expenditures. Program services and overhead expenses have been reviewed and reduced as necessary. As part of reducing costs, the Convention switched health insurance providers in 2017, with the expectation the Convention would save approximately $50,000 in future years. With employee retirements or transitions, decisions were made to allocate responsibilities among existing staff and delay hiring replacements for certain positions. Additionally, over the last few years, increased contributions have been sought through a cooperative program challenge with Southern Baptist Convention churches throughout the state with the hope of producing positive future 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.

19. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through March 8, 2018, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.