BAPTIST COMMUNITY MINISTRIES

Audit of Consolidated Financial Statements

September 30, 2012 with Comparative
Totals for September 30, 2011

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

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Independent Auditor's Report

To the Board of Trustees of
Baptist Community Ministries

We have audited the accompanying consolidated statement of financial position of Baptist Community Ministries (BCM), a Louisiana nonprofit and non-stock corporation, as of September 30, 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of BCM's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from BCM's 2011 financial statements and, in our report dated January 19, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BCM's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BCM as of September 30, 2012, and the results of its activities and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LaPorte

A Professional Accounting Corporation

January 14, 2013

BAPTIST COMMUNITY MINISTRIES
Consolidated Statement of Financial Position
For the Year Ended September 30, 2012
With Comparative Totals for the Year Ended September 30, 2011
(In Thousands)

	2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011 Total
Assets					
Current Assets					
Cash and Cash Equivalents	$ 4,316	$ 696	$ -	$ 5,012	$ 7,606
Accounts Receivable	47	-	-	47	63
Prepaid Expenses	90	-	-	90	112
Total Current Assets	4,453	696	-	5,149	7,781
Investments, at Market Value					
Unrestricted	234,940	-	-	234,940	206,398
Donor Restricted	-	5,580	15,607	21,187	19,270
Total Investments, at Market Value	234,940	5,580	15,607	256,127	225,668
Fixed Assets, Net	321	-	-	321	316
Total Assets	$ 239,714	$ 6,276	$ 15,607	$ 261,597	$ 233,765
Liabilities and Net Assets					
Current Liabilities					
Accounts Payable and Accrued Expenses	$ 454	$ 9	$ -	$ 463	$ 380
Grants Payable	1,386	-	-	1,386	1,544
Other Accrued Liabilities	52	309	-	361	63
Total Current Liabilities	1,892	318	-	2,210	1,987
Long-Term Liabilities					
Distribution Payable to Former Member	304	-	-	304	304
Other Long-Term Liabilities	479	-	-	479	497
Total Long-Term Liabilities	783	-	-	783	801
Total Liabilities	2,675	318	-	2,993	2,788
Net Assets	237,039	5,958	15,607	258,604	230,977
Total Liabilities and Net Assets	$ 239,714	$ 6,276	$ 15,607	$ 261,597	$ 233,765

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

BAPTIST COMMUNITY MINISTRIES
Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2012
With Comparative Totals for the Year Ended September 30, 2011
(In Thousands)

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Support and Gains					
Investment Income, Net	$ 36,328	$ 3,209	$ -	$ 39,537	$ 2,832
Gifts and Pledges	96	-	-	96	93
Bequests	-	-	-	-	2
Other Income	64	-	-	64	75
Net Assets Released from Restrictions	1,350	(1,350)	-	-	-
Total Revenue, Support and Gains	37,838	1,859	-	39,697	3,002
Grants and Expenses					
Grants	7,324	-	-	7,324	5,996
Criminal Justice System Grant Expenditures	247	-	-	247	247
Personnel Costs	3,366	-	-	3,366	3,222
Occupancy Costs	363	-	-	363	367
Operating Costs	462	-	-	462	483
Professional Fees	180	-	-	180	167
Depreciation and Amortization	113	-	-	113	97
Total Grants and Expenses	12,055	-	-	12,055	10,579
Increase (Decrease) in Net Assets Before Income from Discontinued Operations	25,783	1,859	-	27,642	(7,577)
(Loss) Income from Discontinued Operations	(15)	-	-	(15)	11
Increase (Decrease) in Net Assets	25,768	1,859	-	27,627	(7,566)
Net Assets, Beginning of Year	211,271	4,099	15,607	230,977	238,543
Net Assets, End of Year	$ 237,039	$ 5,958	$ 15,607	$ 258,604	$ 230,977

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

BAPTIST COMMUNITY MINISTRIES
Consolidated Statement of Cash Flows
For the Year Ended September 30, 2012
With Comparative Totals for the Year Ended September 30, 2011
(In Thousands)

	2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011 Total
Cash Flows from Operating Activities					
Increase (Decrease) in Net Assets	**$ 25,768**	**$ 1,859**	**$ -**	**$ 27,627**	$ (7,566)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Used in Operating Activities					
Depreciation and Amortization	**113**	**-**	**-**	**113**	97
Net Realized and Unrealized (Gains) Losses on Investments	**(33,695)**	**(2,887)**	**-**	**(36,582)**	1,539
Decrease in Accounts Receivable	**16**	**-**	**-**	**16**	18
Decrease (Increase) in Prepaid Expenses	**22**	**-**	**-**	**22**	(50)
Increase (Decrease) in Accounts Payable and Accrued Expenses	**74**	**9**	**-**	**83**	(52)
(Decrease) in Grants Payable	**(158)**	**-**	**-**	**(158)**	(768)
(Decrease) Increase in Other Accrued Liabilities and Other Long-Term Liabilities	**(29)**	**309**	**-**	**280**	58
(Decrease) in Estimated Self-Insurance Costs	**-**	**-**	**-**	**-**	(150)
Increase in Distribution Payable to Former Member	**-**	**-**	**-**	**-**	6
Net Cash Used in Operating Activities	**(7,889)**	**(710)**	**-**	**(8,599)**	(6,868)
Cash Flows from Investing Activities					
Purchases of Investments	**(44,258)**	**(19,315)**	**-**	**(63,573)**	(64,089)
Proceeds from Sales of Investments	**49,411**	**20,285**	**-**	**69,696**	73,420
Purchases of Fixed Assets	**(118)**	**-**	**-**	**(118)**	(144)
Net Cash Provided by Investing Activities	**5,035**	**970**	**-**	**6,005**	9,187
Net (Decrease) Increase in Cash and Cash Equivalents	**(2,854)**	**260**	**-**	**(2,594)**	2,319
Cash and Cash Equivalents, Beginning of Year	**7,170**	**436**	**-**	**7,606**	5,287
Cash and Cash Equivalents, End of Year	**$ 4,316**	**$ 696**	**$ -**	**$ 5,012**	$ 7,606

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

Note 1. Organization

The consolidated financial statements for Baptist Community Ministries (BCM) include the accounts of BCM, Christian Health Ministries Foundation (CHMF), and the C.E. McFarland and D.A. McFarland Trusts (the McFarland Trusts).

BCM is a private foundation organized under Section 509(a) of the Internal Revenue Code (IRC). BCM makes grants to qualifying charitable organizations in the five-parish river region, including Orleans and the four surrounding parishes. BCM's funding interests are primarily in the fields of health, education, public safety, and governmental oversight.

BCM operates The McFarland Institute. The McFarland Institute provides chaplaincy services in health care, criminal justice, and senior care facilities. Additionally, The McFarland Institute trains church nurses and supports wellness programs in congregations in the Greater New Orleans area.

CHMF is a private foundation within the meaning of Section 509(a) of the IRC. CHMF maintains endowment and other funds and solicits and receives contributions for and on behalf of BCM. BCM is the sole member of CHMF. The McFarland Trusts were established under the wills of C.E. McFarland and D.A. McFarland to provide endowment funds for BCM. CHMF is the designated Trustee for both of the McFarland Trusts. The McFarland Trusts are both private foundations within the meaning of Section 509(a) of the IRC.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The consolidated financial statements of BCM have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, and they include all significant receivables, payables, and other liabilities.

Basis of Presentation

Because of common ownership and control, the accompanying financial statements include the consolidated accounts of BCM, CHMF and the McFarland Trusts. All significant intercompany transactions and accounts have been eliminated. There are no significant transactions among CHMF and the McFarland Trusts which require elimination.

The fiscal year 2012 financial statement presentation is in accordance with the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. Accordingly, BCM reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets are those whose use by BCM has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by BCM in perpetuity.

Note 2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's consolidated financial statements for the year ended September 30, 2011, from which the summarized information was derived.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 those estimates.

Cash and Cash Equivalents

BCM considers highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

BCM carries investments at fair value in accordance with the *Not-for-Profit Entities* Topic of the FASB Accounting Standards Codification. Investments in equity securities with readily determinable fair values and investments in fixed income securities are recorded at fair value. Investments also include an allocation to the asset class commonly referred to as alternative investments: hedge fund, real estate and private equity. These investments are structured as limited liability corporations and are accounted for under the equity method which approximates fair value.

Fair Value Measurements

BCM follows the provisions of the *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification. Accordingly, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The *Fair Value Measurements and Disclosures* Topic establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those which market participants would use in pricing the asset or liability based on the best information available in the circumstances.

Note 2. Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.

Level 3 - Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (see Note 8).

BCM's measurements of fair value are made on a recurring basis, and their valuation techniques for assets recorded at fair value are as follows:

Equity securities - The fair value is the market value based on quoted market prices.

Fixed income securities - The fair value is the market value based on quoted market prices or, for less active markets, market prices provided by recognized broker dealers.

Alternative investments - The fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the investment.

Fixed Assets, Net

Land consists of property which was donated to CHMF and recorded at fair value determined at the date of donation. Equipment and furniture and fixtures are carried at cost. Management's threshold for capitalization is $500. Depreciation is calculated using the straight-line method at rates based on the estimated useful lives of the assets. The estimated useful life of equipment is three years and ten years for furniture and fixtures. Amortization of leasehold improvements was calculated using the straight-line method at rates based on the lesser of the lease term or the estimated useful lives of the assets.

Note 2. Summary of Significant Accounting Policies (Continued)

Fixed Assets, Net (Continued)

At September 30, 2012 and 2011, fixed assets consisted of the following (dollars in thousands):

	2012	2011
Equipment	**$ 659**	$ 592
Furniture and Fixtures	**321**	321
Leasehold Improvements	**179**	179
Land	**29**	29
Less: Accumulated Depreciation	**(867)**	(805)
Fixed Assets, Net	**$ 321**	$ 316

Temporarily Restricted Net Assets

Temporarily restricted net assets primarily consist of net assets that are available to fund the operations of The McFarland Institute.

Permanently Restricted Net Assets

Permanently restricted net assets consist primarily of the McFarland Trusts. The income from these trusts is used to support the operation of The McFarland Institute. The balance of permanently restricted net assets is approximately $15,607,000, for the years ended September 30, 2012 and 2011.

Investment Income, Net

Investment income includes interest income, dividends, net realized and unrealized gains and losses on investments, and rental loss, net of expenses, including custodial fees, investment advisory and management fees, Federal excise taxes, and unrelated business income taxes.

Net investment income for the years ended September 30, 2012 and 2011, is summarized in the table below (dollars in thousands):

	2012	2011
Net Realized and Unrealized Gains (Losses)	**$ 36,582**	$ (1,539)
Interest and Dividends	**4,449**	5,463
Rental Loss	**(374)**	(75)
Federal Excise Taxes	**(255)**	(259)
Unrelated Business Income Taxes	**(3)**	-
Management Fees	**(862)**	(758)
Investment Income, Net	**$ 39,537**	$ 2,832

Note 2. Summary of Significant Accounting Policies (Continued)

Grants
The Board of Trustees approves the issuance of grant contracts. Grants are recorded when a Grant Award Agreement is executed by the grantee and BCM.

BCM, CHMF, and the McFarland Trusts are subject to the distribution requirements of IRC Section 4942 and, accordingly, must distribute grants that, together with certain related expenses, equal 5% of the average market value of their noncharitable-use assets held during the year, as defined by the IRC, within one year after the end of each year. BCM, CHMF, and the McFarland Trusts exceeded their distribution requirements during both fiscal 2012 and 2011.

Gifts, Pledges and Bequests
Unconditional promises to give are recognized as revenues in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Income Tax Status
The Internal Revenue Service has determined that each of BCM, CHMF, and the McFarland Trusts are exempt from Federal income tax under Section 501(c)(3) of the IRC. These entities are private foundations and are subject to certain taxes on their net investment income.

Uncertain Tax Positions
BCM follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB Accounting Standards Codification. All tax returns have been appropriately filed by BCM. BCM recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. BCM's tax filings are subject to audit by various taxing authorities. BCM's Federal tax returns for fiscal years 2011, 2010 and 2009 are subject to examination by the IRS, generally for three years after they were filed. As of September 30, 2012, management evaluated BCM's tax position and concluded that BCM has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

Note 3. Discontinued Operations

BCM and CHMF were previously involved in the operation and support of Mercy+Baptist Medical Center (MBMC), which operated acute health care facilities located in New Orleans, Louisiana. MBMC was created on February 1, 1994, upon completion of the merger of Southern Baptist Hospital (SBH) and Mercy Hospital of New Orleans. MBMC was sold to NME Hospitals, Inc. on August 22, 1995. BCM received cash proceeds of approximately $205 million from the sale and retained certain assets and liabilities as part of the transaction. St. John's Place of New Orleans, Inc. (SJP), an affiliate of Sisters of Mercy Health System-St. Louis, withdrew as a member of BCM on December 15, 1995. SJP's share of the net assets from discontinued operations (35%) is being distributed to SJP over time by BCM.

Note 3. Discontinued Operations (Continued)

Distributions to SJP have been made over time as the liabilities were settled. Through September 30, 2012, BCM has distributed $67.9 million to SJP. BCM has also accrued the estimated final amount due to SJP ($304,000 as a long-term liability) in the accompanying consolidated financial statements. The liabilities from discontinued operations are based on estimates that, in some cases, may take several years to finally settle.

Income (loss) from discontinued operations in the consolidated statement of activities and changes in net assets is comprised primarily of net investment income earned on cash and investments that are being held to pay the retained liabilities, any adjustments to estimated amounts payable on the retained liabilities, and accruals for estimated distributions due to SJP related to these amounts.

Note 4. Investments

BCM and CHMF have engaged the services of professional investment consultants and investment managers to actively manage their investment portfolios. Managers are required to manage their portfolios in accordance with investment guidelines approved by the Board of Trustees of BCM or CHMF, respectively.

Investments primarily consist of equity and fixed income securities held in the form of individual marketable securities, mutual funds, exchange-traded funds and commingled trusts.

The investment policy of BCM calls for a 15% allocation to the asset class of alternative investments.

BCM made commitments to several private equity and real estate funds. Following are the commitments and capital calls through September 30, 2012:

Investment	Commitment	Called as of September 30, 2012	Percentage Called
TIFF TPEP06	$ 4,000,000	$ 3,160,000	79%
TIFF TPEP07	4,000,000	3,080,000	77%
TIFF TPEP08	4,000,000	2,600,000	65%
TIFF Absolute Return Pool II	12,000,000	12,000,000	100%
TIFF Secondary Partners II	3,000,000	2,220,000	74%
Commonfund Realty	9,000,000	9,000,000	100%
Clarion Lion Properties	5,000,000	5,000,000	100%
Prudential Real Estate	5,000,000	5,000,000	100%

Note 4. Investments (Continued)

As noted above, BCM invests in certain alternative investments. The market value of one such investment included in these financial statements is unclear as of the date that the financial statements were available to be issued, January 14, 2013. The fund's value experienced significant impairments in fiscal year 2011 that were considered other than temporary. Accordingly, BCM adjusted the carrying value to reflect those impairments. BCM did not recognize any other-than-temporary impairment charges against investments during the year ended September 30, 2012.

Investments are stated at fair value and are summarized in the table below (dollars in thousands):

	2012				
	BCM	CHMF	McFarland Trusts	Total	2011
Equities					
Large Cap	$ 81,165	$ 1,701	$ 4,720	$ 87,586	$ 74,338
Small/Mid Cap	24,166	648	3,678	28,492	25,312
Emerging Markets	-	331	921	1,252	-
International	27,601	594	1,832	30,027	25,042
Real Estate	-	363	1,042	1,405	-
Energy	-	304	856	1,160	-
Total Equities	132,932	3,941	13,049	149,922	124,692
Fixed Income	57,258	2,137	5,945	65,340	68,211
Alternative Investments					
Hedge Fund	16,899	-	-	16,899	15,436
Private Equity	11,258	-	-	11,258	10,519
Real Estate	11,841	-	-	11,841	6,810
Natural Resources	-	229	638	867	-
Total Alternative Investments	39,998	229	638	40,865	32,765
Total Investments	$ 230,188	$ 6,307	$ 19,632	$ 256,127	$ 225,668

Note 5. Grants Payable

Amounts that are currently obligated under contract as grants payable totaled $1.4 million and $1.5 million, as of September 30, 2012 and 2011, respectively.

Probable future funding commitments under grants which are to be disbursed over multiple years, pending continued satisfactory achievement of stated program objectives by grantee organizations, totaled $8 million as of September 30, 2012.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes (dollars in thousands):

Distributions to BCM for Operation of The McFarland Institute	$ 5,958
Total	$ 5,958

Note 7. Release of Restricted Assets

Net assets were released from restrictions by incurring expenses satisfying the following restricted purposes (dollars in thousands):

Restrictions Accomplished:

Distributions to BCM for Operation of The McFarland Institute	$ 1,103
Criminal Justice System	247
Total	$ 1,350

Note 8. Fair Value Measurements

BCM assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification. See Note 2 for a description of the BCM's policies and valuation techniques.

The valuations of BCM's assets measured at fair value on a recurring basis at September 30, 2012, are as follows (dollars in thousands):

	Level 1	**Level 2**	**Level 3**	**Total**
Equity Securities	**$ 149,922**	**$ -**	**$ -**	**$ 149,922**
Fixed Income Securities	**32,857**	**32,483**	**-**	**65,340**
Alternative Investments	**-**	**-**	**40,865**	**40,865**
Total	**$ 182,779**	**$ 32,483**	**$ 40,865**	**$ 256,127**

The valuations of BCM's assets measured at fair value on a recurring basis at September 30, 2011, are as follows (dollars in thousands):

	Level 1	Level 2	Level 3	Total
Equity Securities	$ 124,692	$ -	$ -	$ 124,692
Fixed Income Securities	34,017	34,194	-	68,211
Alternative Investments	-	-	32,765	32,765
Total	$ 158,709	$ 34,194	$ 32,765	$ 225,668

Note 8. Fair Value Measurements (Continued)

The changes in alternative investments measured at fair value for which BCM has used Level 3 inputs to determine fair value for the year ended September 30, 2012, are as follows (dollars in thousands):

	Level 3 Beginning Balance	Net Realized and Unrealized Gains	Net Purchases and Sales	Level 3 Ending Balance
Alternative Investments	**$ 32,765**	**$ 1,558**	**$ 6,542**	**$ 40,865**
Total	**$ 32,765**	**$ 1,558**	**$ 6,542**	**$ 40,865**

The changes in alternative investments measured at fair value for which BCM has used Level 3 inputs to determine fair value for the year ended September 30, 2011, are as follows (dollars in thousands):

	Level 3 Beginning Balance	Net Realized and Unrealized Gains	Net Purchases and Sales	Level 3 Ending Balance
Alternative Investments	$ 25,920	$ 1,199	$ 5,646	$ 32,765
Total	$ 25,920	$ 1,199	$ 5,646	$ 32,765

Note 9. Leases

On August 18, 2006, BCM entered into a lease agreement for office space on the 29th floor of 400 Poydras Street which expires on February 28, 2017. Rental expenses on this lease were approximately $121,600 during fiscal year 2012 and $123,500 during fiscal year 2011. Average future minimum payments required under this lease are approximately $125,600 per year or $556,400 in total as of September 30, 2012.

On April 1, 2006, BCM entered into a lease agreement for office space on the 25th floor of 400 Poydras Street which expires on September 30, 2016. Rental expenses on this lease were approximately $79,000 during fiscal year 2012 and approximately $80,000 during fiscal year 2011. Average future minimum payments required under this lease are approximately $81,600 per year or $326,700 in total as of September 30, 2012.

Note 10. Retirement Plans

Since August 22, 1995, BCM has offered a qualified tax-deferred plan to eligible employees. Employer discretionary contributions for eligible employees are based on 5% of wages plus an additional 5% of wages in excess of the Social Security wage base. In addition, BCM makes matching contributions up to 75% of the first 4% of wages contributed by eligible employees on a salary reduction basis under Section 401(k) of the IRC. Fidelity Investments was appointed as the third party administrator and trustee of the 401(k) Plan. Total employer contributions were $212,000 and $198,000, in fiscal years 2012 and 2011, respectively.

Two executives participate in separate deferred compensation plans under Section 457 of the IRC. The plans are provided for in the terms of their respective employment agreements (see Note 15). Employer contribution amounts and distribution terms vary according to each plan. Since the plans are unfunded, BCM records a liability to reserve for the future distributions to be paid under the plans. During the years ended September 30, 2012 and 2011, BCM accrued plan expenses of approximately $33,000 and $27,000, respectively, and in fiscal year 2012 made a required distribution of $17,000. As of September 30, 2012 and 2011, the plan liabilities totaled approximately $117,000 and $101,000, respectively.

Note 11. Functional Expense Allocation

Expenses by function for the years ended September 30, 2012 and 2011, were as follows:

	2012	2011
Expenses		
Program Services		
Grantmaking	**$ 8,896**	$ 7,487
Direct Charitable Activities	**1,454**	1,406
Supporting Services		
Management and General	**1,671**	1,653
Fundraising	**34**	33
Total Expenses	**$ 12,055**	$ 10,579

Note 12. Fair Value of Financial Instruments

The following disclosure is made in accordance with the *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification. Financial instruments are defined as cash and contractual rights and obligations that require settlement, directly or indirectly, in cash.

Note 12. Fair Value of Financial Instruments (Continued)

Listed below are the carrying amounts of financial instruments which approximate fair value.

	September 30, 2012		September 30, 2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
	(In Thousands)			
Financial Assets				
Cash and Cash Equivalents	**$ 5,012**	**$ 5,012**	$ 7,606	$ 7,606
Accounts Receivable	**47**	**47**	63	63
Investments	**256,127**	**257,511**	225,668	225,668
Financial Liabilities				
Accounts Payable and Accrued Expenses	**$ 463**	**$ 463**	$ 380	$ 380
Grants Payable	**1,386**	**1,386**	1,544	1,544
Other Accrued Liabilities	**361**	**361**	63	63
Distribution Payable to Former Member	**304**	**304**	304	304
Other Long-Term Liabilities	**479**	**479**	497	497

Note 13. Concentration of Credit Risk

The financial instruments that potentially subject BCM to a concentration of credit risk consist primarily of cash deposits and investments. BCM's policy is to maintain balances below the U.S. Federal Deposit Insurance Corporation limit. At times, deposits may exceed the covered amounts. BCM has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash. Investments are subject to market risk which may result in losses.

Note 14. Commitments and Contingencies

During fiscal year 2010, BCM entered into a cooperative endeavor agreement (CEA) with the City of New Orleans to manage and oversee agreed upon justice innovation projects. BCM agreed to utilize its grants and contract management process to continue and/or initiate projects in seven goal areas outlined in the CEA. All funds under management are being used to support direct efforts within the goal areas, and no indirect and/or administrative costs are being charged against these funds for fiscal and project management duties performed by BCM. For the year ended September 30, 2010, revenues from the CEA totaled $705,000, and amounts re-granted and/or expended to accomplish the agreed upon goals totaled approximately $211,000. For both the years ended September 30, 2012 and 2011, the amount re-granted and/or expended totaled approximately $247,000.

Note 15. Employment Agreement

On October 1, 2012, BCM entered into an employment agreement with the President of BCM. The agreement continues for 48 consecutive months, ending on September 30, 2016. BCM may terminate the agreement at any time with or without cause and without advance notice to the President. The employment agreement includes a covenant not-to-compete for a period of two years after termination of employment, as well as provisions for a 457 plan (see Note 10).

On October 1, 2012, BCM entered into an employment agreement with the Senior Consultant of BCM who is also the President of the McFarland Institute Council. The agreement shall continue for one year ending on September 30, 2013, and includes a provision for a 457 plan (see Note 10). BCM may terminate the agreement prior to the end of the agreement with at least 90 days notice.

Note 16. Endowments

CHMF's endowment consists of three individual funds established for supporting operations/programs. Its endowment includes both donor-restricted and a board-designated unrestricted funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In the past CHMF received contributions which were subject to specific restrictions which were imposed by the donors. CHMF believes these contributions have been recorded in accordance with the documents governing these contributions. Additionally, CHMF receives gifts, bequests and contributions whose use is not restricted by the donor. The Board of Trustees of CHMF has the ability to distribute such gifts as the Board, in its sole discretion, shall determine. As a result all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

The *Not-for-Profit Entities* Topic of the FASB Accounting Standards Codification provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This Topic also requires additional disclosures about an organization’s endowment funds. CHMF adopted the net asset classification provisions of the Topic during the year ended September 30, 2011.

Note 16. Endowments (Continued)

The Board of Trustees of CHMF has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, CHMF 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 made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by CHMF in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, CHMF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 CHMF, and (7) CHMF's investment policies.

Endowment Investment and Spending Policies. CHMF has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. CHMF’s spending and investment policies work together to achieve this objective.

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is five percent (5%) plus inflation, net of investment fees. Actual returns in any given year may vary from this amount. To satisfy its long-term rate of return objectives, CHMF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CHMF targets a diversified asset allocation that places an emphasis on equity-based and fixed income investments to achieve its long-term return objectives within prudent risk parameters. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The spending policy calculates the amount of money annually distributed from CHMF’s various endowed funds. The current spending policy is to distribute an amount equal to 5% of the prior years’ average of the fair market value of the endowment funds. Accordingly, over the long-term, CHMF expects its current spending policy to allow its endowment assets to grow at the rate of inflation annually. This is consistent with CHMF’s objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Note 16. Endowments (Continued)

Endowment net asset composition by type of fund as of September 30, 2012, is as follows (dollars in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-Restricted Endowments	$ -	$ 5,958	$ 15,607	$ 21,565
Board Designated	5,339	-	-	5,339
Total	$ 5,339	$ 5,958	$ 15,607	$ 26,904

Changes in endowment net assets as of September 30, 2012, are as follows (dollars in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	$ 4,949	$ 3,852	$ 15,607	$ 24,408
Contributions	159	-	-	159
Net Investment Gains, Including	53	322	-	375
Net Appreciation/Depreciation	669	2,887	-	3,556
Expenditures/Distributions	(491)	(1,103)	-	(1,594)
Endowment Net Assets, End of Year	$ 5,339	$ 5,958	$ 15,607	$ 26,904

Note 17. Agency Funds

Agency Funds are funds for which BCM acts as a trustee and has duty to hold and manage assets for the benefit of a specific beneficiary. Funds held in an agency capacity are reported in temporarily restricted cash and cash equivalents, and the related agency liabilities are reported in other accrued liabilities. As of September 30, 2012 and 2011, agency funds held by BCM and the related liabilities totaled approximately $309,000 and $-0-, respectively.

Note 18. Subsequent Events

On October 1, 2012, Christian Health Ministries Foundation (CHMF) merged into Baptist Community Ministries (BCM). BCM initiated the merger for the purpose of achieving operational efficiencies by combining all functions under one corporate entity. The merger was accounted for using the carryover method.

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, January 14, 2013, and determined that no events, except for the events described above and in Note 15, occurred that require disclosure. No subsequent events occurring after January 14, 2013, have been evaluated for inclusion in these consolidated financial statements.