

BAPTIST COMMUNITY MINISTRIES

Audit of Consolidated Financial Statements

September 30, 2019 with Comparative
Totals for September 30, 2018



Contents

| | |
|-------------------------------------|-------|
| Independent Auditor's Report | 1 - 2 |
|-------------------------------------|-------|

Consolidated Financial Statements

| | |
|--|--------|
| Consolidated Statement of Financial Position | 3 |
| Consolidated Statement of Activities and Changes in Net Assets | 4 |
| Consolidated Statement of Functional Expenses | 5 |
| Consolidated Statement of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7 - 23 |

Independent Auditor's Report

To the Board of Trustees
Baptist Community Ministries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Baptist Community Ministries which comprise the consolidated statement of financial position as of September 30, 2019, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Baptist Community Ministries as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, for the year ended September 30, 2019, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Baptist Community Ministries' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 14, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accounting Corporation

Metairie, LA
January 30, 2020

BAPTIST COMMUNITY MINISTRIES
Consolidated Statement of Financial Position
As of September 30, 2019
With Comparative Totals as of September 30, 2018
(In Thousands)

| | 2019 | | | 2018 Total |
|---|-------------------------------|----------------------------|-------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| Assets | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | \$ 5,938 | \$ 51 | \$ 5,989 | \$ 4,207 |
| Accounts Receivable | 80 | - | 80 | 72 |
| Prepaid Expenses | 234 | - | 234 | 130 |
| Total Current Assets | 6,252 | 51 | 6,303 | 4,409 |
| Investments, at Market Value | | | | |
| Unrestricted | 288,821 | - | 288,821 | 297,022 |
| Donor Restricted | - | 23,187 | 23,187 | 23,209 |
| Total Investments, at Market Value | 288,821 | 23,187 | 312,008 | 320,231 |
| Fixed Assets, Net | 113 | - | 113 | 168 |
| Total Assets | \$ 295,186 | \$ 23,238 | \$ 318,424 | \$ 324,808 |
| Liabilities and Net Assets | | | | |
| Current Liabilities | | | | |
| Accounts Payable and Accrued Expenses | \$ 275 | \$ 3 | \$ 278 | \$ 375 |
| Grants Payable | 1,559 | - | 1,559 | 1,615 |
| Other Accrued Liabilities | 53 | - | 53 | 47 |
| Total Current Liabilities | 1,887 | 3 | 1,890 | 2,037 |
| Long-Term Liabilities | | | | |
| Distribution Payable to Former Member | 290 | - | 290 | 290 |
| Other Long-Term Liabilities | 232 | - | 232 | 273 |
| Total Long-Term Liabilities | 522 | - | 522 | 563 |
| Total Liabilities | 2,409 | 3 | 2,412 | 2,600 |
| Net Assets | 292,777 | 23,235 | 316,012 | 322,208 |
| Total Liabilities and Net Assets | \$ 295,186 | \$ 23,238 | \$ 318,424 | \$ 324,808 |

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

BAPTIST COMMUNITY MINISTRIES
Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2019
With Comparative Totals for the Year Ended September 30, 2018
(In Thousands)

| | 2019 | | | 2018 Total |
|---|-------------------------------|----------------------------|-------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| Revenue, Support, and Gains | | | | |
| Net Investment Return | \$ 7,261 | \$ 1,033 | \$ 8,294 | \$ 30,335 |
| Grants | 115 | - | 115 | 100 |
| Gifts and Pledges | 37 | - | 37 | 10 |
| Other Income | 154 | - | 154 | 154 |
| Net Assets Released from Restrictions | 1,235 | (1,235) | - | - |
| Total Revenue, Support, and Gains | 8,802 | (202) | 8,600 | 30,599 |
| Grants and Expenses | | | | |
| Grants | 10,140 | - | 10,140 | 8,932 |
| Personnel Costs | 3,565 | - | 3,565 | 3,354 |
| Occupancy Costs | 316 | - | 316 | 309 |
| Operating Costs | 572 | - | 572 | 547 |
| Professional Fees | 164 | - | 164 | 196 |
| Depreciation and Amortization | 43 | - | 43 | 45 |
| Total Grants and Expenses | 14,800 | - | 14,800 | 13,383 |
| (Decrease) Increase in Net Assets Before Gain from Discontinued Operations | (5,998) | (202) | (6,200) | 17,216 |
| Gain from Discontinued Operations | 4 | - | 4 | 4 |
| (Decrease) Increase in Net Assets | (5,994) | (202) | (6,196) | 17,220 |
| Net Assets, Beginning of Year | 298,771 | 23,437 | 322,208 | 304,988 |
| Net Assets, End of Year | \$ 292,777 | \$ 23,235 | \$ 316,012 | \$ 322,208 |

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

BAPTIST COMMUNITY MINISTRIES
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2019
With Comparative Totals for the Year Ended September 30, 2018
(In Thousands)

| | Program Services | | | Supporting Services | | | Total Supporting Services | 2019 Total Expenses | 2018 Total Expenses |
|-------------------------------|------------------|------------------------|-------------------|---------------------|-------------------------------|-----------------|---------------------------------|---------------------------|---------------------------|
| | Grantmaking | Charitable Services | Total Programs | Fund Development | General and Administrative | | | | |
| Grants | \$ 10,140 | \$ - | \$ 10,140 | \$ - | \$ - | \$ - | \$ 10,140 | \$ 8,932 | |
| Personnel | 727 | 1,680 | 2,407 | 106 | 1,052 | 1,158 | 3,565 | 3,354 | |
| Occupancy | 107 | 91 | 198 | 3 | 115 | 118 | 316 | 309 | |
| Operating | 89 | 159 | 248 | 100 | 224 | 324 | 572 | 547 | |
| Professional Fees | - | - | - | - | 164 | 164 | 164 | 196 | |
| Depreciation and Amortization | - | - | - | - | 43 | 43 | 43 | 45 | |
| Total | \$ 11,063 | \$ 1,930 | \$ 12,993 | \$ 209 | \$ 1,598 | \$ 1,807 | \$ 14,800 | \$ 13,383 | |

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

BAPTIST COMMUNITY MINISTRIES
Consolidated Statement of Cash Flows
For the Year Ended September 30, 2019
With Comparative Totals for the Year Ended September 30, 2018
(In Thousands)

| | 2019 | | | 2018 Total |
|--|-------------------------------|----------------------------|-----------------|-----------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| Cash Flows from Operating Activities | | | | |
| (Decrease) Increase in Net Assets | \$ (5,994) | \$ (202) | \$ (6,196) | \$ 17,220 |
| Adjustments to Reconcile (Decrease) Increase in Net Assets to Net Cash Used in Operating Activities | | | | |
| Depreciation and Amortization | 43 | - | 43 | 45 |
| Net Realized and Unrealized Gains on Investments | (4,937) | (547) | (5,484) | (27,261) |
| Loss on Fixed Assets Write-Off | 3 | - | 3 | - |
| Loss on Land Write-Off | 29 | - | 29 | - |
| (Increase) Decrease in: | | | | |
| Accounts Receivable | (8) | - | (8) | 4 |
| Prepaid Expenses | (104) | - | (104) | 17 |
| Increase (Decrease) in: | | | | |
| Accounts Payable and Accrued Expenses | (96) | (1) | (97) | 46 |
| Grants Payable | (56) | - | (56) | (409) |
| Other Accrued Liabilities and Long-Term Liabilities | (35) | - | (35) | (44) |
| Net Cash Used in Operating Activities | (11,155) | (750) | (11,905) | (10,382) |
| Cash Flows from Investing Activities | | | | |
| Purchases of Investments | (84,456) | - | (84,456) | (36,150) |
| Proceeds from Sales of Investments | 97,594 | 569 | 98,163 | 44,506 |
| Purchases of Fixed Assets | (20) | - | (20) | (22) |
| Net Cash Provided by Investing Activities | 13,118 | 569 | 13,687 | 8,334 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,963 | (181) | 1,782 | (2,048) |
| Cash and Cash Equivalents, Beginning of Year | 3,975 | 232 | 4,207 | 6,255 |
| Cash and Cash Equivalents, End of Year | \$ 5,938 | \$ 51 | \$ 5,989 | \$ 4,207 |

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

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 1. Organization

The consolidated financial statements for Baptist Community Ministries (BCM) include the accounts of BCM 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, and public safety.

Chaplaincy Services provides pastoral care in health care, criminal justice, and senior care facilities. Additionally, Congregational Wellness trains nurses and lay persons and supports wellness programs in congregations in the Greater New Orleans area. Together Chaplaincy Services and Congregational Wellness comprise the direct charitable service activities of BCM (Charitable Services).

The McFarland Trusts were established under the wills of C.E. McFarland and D.A. McFarland to provide endowment funds for BCM. BCM is the designated Trustee for both of the McFarland Trusts. The McFarland Trusts are private foundations within the meaning of Section 509(a) of the IRC.

Program Services include Grantmaking and Charitable Services. Grantmaking consists of awarding grants to qualified organizations within BCM's areas of funding interest and direct internal expenses incurred. Charitable Services consists of direct expenses to conduct Chaplaincy Services and Congregational Wellness programs as described above.

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 (U.S. GAAP), 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 and the McFarland Trusts. All significant intercompany transactions and accounts are eliminated. For the year ended September 30, 2019, there are no significant transactions among BCM and the McFarland Trusts which require elimination.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The fiscal year 2019 consolidated financial statements presentation is in accordance with the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Accordingly, BCM reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions - Net assets available for use in general operations and are not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. For BCM, these primarily consist of net assets that are available to fund direct charitable services. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. For BCM, these consist of the McFarland Trusts. The income from these trusts is used to support direct charitable services. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. See Notes 7 and 8 for further disclosure of net assets with donor restrictions and releases of net assets with donor restrictions.

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 BCM's consolidated financial statements for the year ended September 30, 2018, from which the summarized information was derived.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Investments

BCM carries investments at fair value in accordance with the *Not-for-Profit Entities* Topic of the FASB ASC. Investments in equity securities are primarily publicly traded and are generally valued based upon the final sale prices as quoted on the primary exchange. Fixed income securities are generally valued based upon quoted market prices from brokers and dealers, which represent fair value. Investments also include an allocation to the asset class commonly referred to as alternative investments with net asset value (NAV) investments in private equity, real estate funds, and, in 2018, a hedge fund. BCM has significant transparency into the underlying positions of the private equity funds. BCM cannot independently assess the value of these underlying positions through a public exchange or over the counter market. These investments are structured as limited liability corporations and are reported at NAV which approximates fair value.

BCM follows the concept of the “practical expedient” under U.S. GAAP. The practical expedient is an acceptable method under U.S. GAAP to determine the fair value of certain NAV investments (a) that do not have a readily determinable fair value predicated upon a public market, and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company under U.S. GAAP. As such, NAV investments are presented in the accompanying consolidated financial statements at fair value, as determined by BCM. Such fair value generally represents BCM’s proportionate share of the net assets of the NAV investment as reported by the investment managers or general partners. Accordingly, the fair value of NAV investments is generally increased by additional contributions and BCM’s share of net earnings from the NAV investments and decreased by distributions and BCM’s share of net losses from the NAV investments.

BCM believes that the carrying amount of its NAV investments is a reasonable estimate of fair value as of September 30, 2019 and 2018. Because these investments are not readily marketable, the estimated value is subject to uncertainty. Therefore, results may differ from the value that would have been used had a ready market for the investment existed and such differences could be material.

Fair Value Measurement

BCM follows the provisions of the *Fair Value Measurement* Topic of the FASB ASC. 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 Measurement* 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 investment based on the best information available in the circumstances.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Fair Value Measurement (Continued)

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

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical investments that BCM has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices, which are observable for the investment either directly or indirectly; including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable and includes situations where there is little, if any, market activity for the investment.

Inputs are used in applying the various valuation techniques and refer to the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. BCM considers observable data to be market data which is readily available and reliable and provided by independent sources. The categorization of a financial instrument within the fair value hierarchy is therefore based upon the pricing transparency of the instrument and does not necessarily correspond to BCM's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets are classified as Level 1 and generally include active listed equities and certain fixed income investments. BCM does not adjust the quoted price for such instruments.

Investments traded in markets that are not considered to be active under the accounting definition, but are valued on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified as Level 2. Such inputs may include model-based valuation techniques. These investments include certain U.S. government and sovereign obligations, government agency obligations, and investment grade corporate bonds.

Fixed Assets, Net

Land consisted of property which was donated to BCM and recorded at fair value determined at the date of donation. During fiscal year ended September 30, 2019, the land was written off resulting in a loss of \$29,000. Equipment, furniture and fixtures, and leasehold improvements are carried at cost. Management's threshold for capitalization is \$1,000. 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 is calculated using the straight-line method at rates based on the lesser of the lease term or the estimated useful lives of the assets.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Fixed Assets, Net (Continued)

At September 30, 2019 and 2018, fixed assets consisted of the following (dollars in thousands):

| | 2019 | 2018 |
|--------------------------------|---------------|---------------|
| Equipment | \$ 376 | \$ 707 |
| Furniture and Fixtures | 309 | 462 |
| Leashold Improvements | 145 | 187 |
| Land | - | 29 |
| Less: Accumulated Depreciation | (717) | (1,217) |
| Fixed Assets, Net | \$ 113 | \$ 168 |

Net Investment Return

Investment return includes interest income, dividends, net realized and unrealized gains and losses on investments, net of expenses, including custodial fees, investment advisory and management fees, federal excise taxes, and unrelated business income taxes related to the investments.

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 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 and the McFarland Trusts met or exceeded their distribution requirements during both fiscal years 2019 and 2018.

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

The Internal Revenue Service has determined that both BCM 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 return.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Income Tax (continued)

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. BCM and the McFarland Trusts believe that they have appropriate support for any tax positions taken, and management has determined that there are no uncertain tax positions that are material to the consolidated financial statements.

Penalties and interest assessed by income taxing authorities, if any, would be included in income tax expense.

Recent Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from leases classified as finance or operating. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In November 2019, the FASB issued ASU 2019-10 which defers the effective date of ASU 2016-02 one year making it effective for annual reporting periods beginning after December 15, 2020. Management is currently evaluating the impact of adopting ASU 2016-02 on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. Management has evaluated the effect that the standard will have on the consolidated financial statements and concluded the standard will have no material impact on the financial statements.

Implementation of Accounting Pronouncement

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Management has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. There was no reclassification of net assets as a result of implementation.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 3. Liquidity and Availability

BCM regularly monitors liquidity required to meet its operating needs and other contractual commitments. BCM manages its cash available to meet general expenditures using the following:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance of sustainability.

Assets not available to meet general expenditures within one year of the consolidated statement of financial position date include amounts with lock up provisions and assets restricted in perpetuity (See Note 7).

The following table reflects BCM's financial assets available to meet general expenditures within one year of the consolidated statement of financial position as of September 30, 2019 and 2018 (dollars in thousands).

| | 2019 | 2018 |
|--|-------------------|-------------------|
| Cash and Cash Equivalents | \$ 5,989 | \$ 4,207 |
| Accounts Receivable | 80 | 72 |
| Investments | 312,008 | 320,231 |
| Less: Investments with Lock Up Provisions | (20,846) | (29,627) |
| Less: Investments Restricted in Perpetuity | (15,106) | (15,106) |
| Total | \$ 282,125 | \$ 279,777 |

Note 4. Discontinued Operations

BCM was 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.

Distributions to SJP have been made over time as the liabilities were settled. Through September 30, 2019, BCM has distributed \$67.9 million to SJP. BCM has also accrued the estimated final amount due to SJP (\$290,000 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.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 4. Discontinued Operations (Continued)

Gain from discontinued operations in the consolidated statement of activities and changes in net assets is comprised primarily of net investment return 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 5. Investments

Investments held as of September 30th are summarized below (dollars in thousands):

| | 2019 | | | 2018 |
|--------------------------------------|-------------------|---------------------|-------------------|------------|
| | BCM | McFarland Trusts | Total | |
| Equities | | | | |
| Large Cap | \$ 107,629 | \$ - | \$ 107,629 | \$ 117,467 |
| Small/Mid Cap | 29,633 | - | 29,633 | 35,312 |
| Stock Index Fund | - | 12,286 | 12,286 | 12,651 |
| Developed Markets Index Fund | - | 2,034 | 2,034 | 2,145 |
| Emerging Markets | - | 1,082 | 1,082 | 1,098 |
| International | 49,219 | - | 49,219 | 40,611 |
| Fixed Income Exchange Traded Fund | - | 6,214 | 6,214 | 5,793 |
| Real Estate | - | 1,127 | 1,127 | 975 |
| Total Equities | 186,481 | 22,743 | 209,224 | 216,052 |
| Fixed Income | 60,042 | - | 60,042 | 54,839 |
| Alternative Investments | | | | |
| Hedge Fund | - | - | - | 14,343 |
| Private Equity | 20,846 | - | 20,846 | 15,284 |
| Real Estate | 21,896 | - | 21,896 | 19,713 |
| Total Alternative Investments | 42,742 | - | 42,742 | 49,340 |
| Total Investments | \$ 289,265 | \$ 22,743 | \$ 312,008 | \$ 320,231 |

BCM has engaged the services of a professional investment consultant 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.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 5. Investments (Continued)

The classification of investments by level within the valuation hierarchy as of September 30, 2019 and 2018, is as follows (dollars in thousands):

| September 30, 2019 | Level 1 | Level 2 | Level 3 | NAV | Total |
|---|-------------------|-------------------|-------------|------------------|-------------------|
| Equities | | | | | |
| Large Cap | \$ - | \$ 107,629 | \$ - | \$ - | \$ 107,629 |
| Small/Mid Cap | 14,641 | 14,992 | - | - | 29,633 |
| Stock Index Fund | 12,286 | - | - | - | 12,286 |
| Developed Markets Index Fund | 2,034 | - | - | - | 2,034 |
| Emerging Markets | 1,082 | - | - | - | 1,082 |
| International | 49,219 | - | - | - | 49,219 |
| Fixed Income Exchange Traded Fund | 6,214 | - | - | - | 6,214 |
| Real Estate | 1,127 | - | - | - | 1,127 |
| Total Equities | 86,603 | 122,621 | - | - | 209,224 |
| Fixed Income | 16,181 | 43,861 | - | - | 60,042 |
| Alternative Investments ^(a) | | | | | |
| Hedge Fund | - | - | - | - | - |
| Private Equity | - | - | - | 20,846 | 20,846 |
| Real Estate | - | - | - | 21,896 | 21,896 |
| Total Alternative Investments | - | - | - | 42,742 | 42,742 |
| Total Investments | \$ 102,784 | \$ 166,482 | \$ - | \$ 42,742 | \$ 312,008 |
| September 30, 2018 | | | | | |
| Equities | | | | | |
| Large Cap | \$ 36,833 | \$ 80,634 | \$ - | \$ - | \$ 117,467 |
| Small/Mid Cap | 15,838 | 19,474 | - | - | 35,312 |
| Stock Index Fund | 12,651 | - | - | - | 12,651 |
| Developed Markets Index Fund | 2,145 | - | - | - | 2,145 |
| Emerging Markets | 1,098 | - | - | - | 1,098 |
| International | 40,611 | - | - | - | 40,611 |
| Fixed Income Exchange Traded Fund | 5,793 | - | - | - | 5,793 |
| Real Estate | 975 | - | - | - | 975 |
| Total Equities | 115,944 | 100,108 | - | - | 216,052 |
| Fixed Income | 13,452 | 41,387 | - | - | 54,839 |
| Alternative Investments ^(a) | | | | | |
| Hedge Fund | - | - | - | 14,343 | 14,343 |
| Private Equity | - | - | - | 15,284 | 15,284 |
| Real Estate | - | - | - | 19,713 | 19,713 |
| Total Alternative Investments | - | - | - | 49,340 | 49,340 |
| Total Investments | \$ 129,396 | \$ 141,495 | \$ - | \$ 49,340 | \$ 320,231 |

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statement of financial position.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 5. Investments (Continued)

The following table lists investments in other investment companies as of September 30, 2019 that have been valued using the NAV as a practical expedient, classified by major investment category:

| Category of Investment | Investment Strategy and Structure | Number of Investments | Fair Value Using NAV (in thousands) | Unfunded Commitments (in thousands) | Remaining Life | Redemption Terms | Redemption Restrictions and Terms | Redemption Restrictions and Terms in Place at Year End |
|---------------------------------|--|-----------------------|-------------------------------------|-------------------------------------|----------------|---|---|---|
| Private Equity | Investments in the equity and credit of primarily private companies through private partnerships and holding companies. Benchmark is the global stock markets (as measured by the MCSI World Index). | 11 | \$ 20,846 | \$ 15,153 | 2 to 10 years | Original terms range between four to six years with five additional one-year periods at the discretion of the Manager. Redemption not permitted during the life of the fund. Distributions may be made at the discretion of the general partners. | Not applicable - no redemption ability. | Not applicable - no redemption ability. |
| Real Estate Limited Partnership | Investments in real estate assets. | 1 | 10,888 | - | Open Ended | 90 days written notice. | Value as of the last day of the calendar quarter immediately preceding the redemption date subject to the extent as liquid assets permit. | Value as of the last day of the calendar quarter immediately preceding the redemption date subject to the extent as liquid assets permit. |
| Real Estate Investment Trust | Investments in real estate assets. | 1 | 11,008 | - | Open Ended | 90 days written notice. | The Limited Partner may revoke a Redemption Notice with 15 days' prior written notice of such revocation the receipt of which has been acknowledged by the General Partner. | The Limited Partner may revoke a Redemption Notice with 15 days' prior written notice of such revocation the receipt of which has been acknowledged by the General Partner. |
| | | | <u>\$ 42,742</u> | <u>\$ 15,153</u> | | | | |

Note 6. Grants Payable

Amounts that are currently obligated under contract as grants payable totaled approximately \$1.6 million as of September 30, 2019 and 2018.

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 \$11.0 million as of September 30, 2019.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 7. Net Assets With Donor Restrictions

At September 30, 2019 and 2018, net assets with donor restrictions totaled \$23.2 million and \$23.4 million, respectively.

Net assets with donor-imposed restrictions temporary in nature are available for the following purposes (dollars in thousands):

| | 2019 | 2018 |
|---|-----------------|-----------------|
| Distributions to BCM for Direct Charitable Services | \$ 8,129 | \$ 8,229 |
| Rosenthal - Heart and Cancer Patients | - | 102 |
| Total | \$ 8,129 | \$ 8,331 |

Net assets with donor-imposed restrictions that are perpetual in nature consist of the following endowment fund assets to be held indefinitely (dollars in thousands):

| | 2019 | 2018 |
|----------------------|------------------|------------------|
| D.A. McFarland Trust | \$ 12,466 | \$ 12,466 |
| C.E. McFarland Trust | 2,196 | 2,196 |
| Andrew Stewart | 369 | 369 |
| Nippert | 75 | 75 |
| Total | \$ 15,106 | \$ 15,106 |

Note 8. Releases of Net Assets With Donor Restrictions

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

| Restrictions Accomplished | 2019 | 2018 |
|---|-----------------|-----------------|
| Distributions to BCM for Direct Charitable Services | \$ 1,133 | \$ 1,062 |
| Rosenthal Funds Released | 101 | 100 |
| McFarland Trusts Professional Fees | 1 | - |
| Total | \$ 1,235 | \$ 1,162 |

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

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 was originally set to expire on February 28, 2017. On July 26, 2016, the lease was extended through May 31, 2027. Rental expenses on this lease were approximately \$126,000 during fiscal year 2019 and \$128,000 during fiscal year 2018. Average future minimum payments required under this lease are approximately \$132,000 per year or \$1,015,000 in total as of September 30, 2019.

On July 22, 2016, BCM entered into a lease agreement for office space at 2222 Lakeshore Drive which expires on September 30, 2021. Rental expenses on this lease were approximately \$61,000 during fiscal year 2019 and \$62,000 during fiscal year 2018. Average future minimum payments required under this lease are approximately \$62,000 per year or \$124,000 in total as of September 30, 2019.

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 approximately \$201,000 and \$189,000 in fiscal years 2019 and 2018, respectively.

A former executive participated in a deferred compensation plan under Section 457 of the IRC. The plan was provided for in the terms of an employment agreement.

The plan is unfunded. BCM records a liability to reserve the future distributions to be paid under the plan. During the years ended September 30, 2019 and 2018, BCM accrued plan expenses of approximately \$8,000 and \$8,000, respectively. As of September 30, 2019 and 2018, the plan liability totaled approximately \$67,000 and \$89,000, respectively.

Note 11. Functional Expense Allocation

The consolidated statements of functional expenses present the natural classification detail of expenses by function. Those expenses which cannot be specifically identified by function type are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are occupancy expenses, which are allocated to functions based upon headcount.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 12. Fair Value of Financial Instruments

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

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

| | September 30, 2019 | | September 30, 2018 | |
|---------------------------------------|-----------------------|------------|--------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | <i>(In Thousands)</i> | | | |
| Financial Assets | | | | |
| Cash and Cash Equivalents | \$ 5,989 | \$ 5,989 | \$ 4,207 | \$ 4,207 |
| Accounts Receivable | 80 | 80 | 72 | 72 |
| Prepaid Expenses | 234 | 234 | 130 | 130 |
| Investments | 312,008 | 312,008 | 320,231 | 320,231 |
| Financial Liabilities | | | | |
| Accounts Payable and Accrued Expenses | \$ 278 | \$ 278 | \$ 375 | \$ 375 |
| Grants Payable | 1,559 | 1,559 | 1,615 | 1,615 |
| Other Accrued Liabilities | 53 | 53 | 47 | 47 |
| Distribution Payable to Former Member | 290 | 290 | 290 | 290 |
| Other Long-Term Liabilities | 232 | 232 | 273 | 273 |

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. BCM maintains its cash accounts in one commercial bank. The amount on deposit at September 30, 2019 and 2018, exceeded the insurance limits of the Federal Deposit Insurance Corporation by approximately \$401,000 and \$921,000, respectively. 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.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 14. Commitments and Contingencies

Since fiscal year 2012, BCM has entered into various Cooperative Endeavor Agreements (CEA) 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 agreed upon goal areas stipulated in each 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 years ended September 30, 2019 and 2018, the amounts received totaled approximately \$0 and \$100,000 respectively and the amounts re-granted and/or expended totaled approximately \$0 and \$100,000, respectively.

Note 15. Employment Agreement

On July 1, 2016, BCM entered into an employment agreement with the President and Chief Executive Officer (CEO) of BCM. The agreement automatically renews annually until terminated by either the President and CEO or the Board of Trustees of BCM.

Note 16. Endowments

BCM's endowments consist of four donor-restricted individual funds established for supporting operations/programs. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In the past, BCM received contributions which were subject to specific restrictions which were imposed by the donors. BCM believes these contributions have been recorded in accordance with the documents governing these contributions. Additionally, BCM receives gifts, bequests, and contributions whose use is not restricted by the donor. The Board of Trustees of BCM has the ability to distribute such gifts as the Board, in its sole discretion, shall determine. As a result, all contributions not classified as with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

The *Not-for-Profit Entities* Topic of the FASB ASC 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.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 16. Endowments (Continued)

The Board of Trustees of BCM 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, BCM classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 net assets with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditure by BCM in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, BCM 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 BCM, and (7) BCM's investment policies.

Endowment Investment and Spending Policies: BCM 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. BCM'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, BCM 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). BCM 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 BCM'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, BCM expects its current spending policy to allow its endowment assets to grow at the rate of inflation annually. This is consistent with BCM's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 16. Endowments (Continued)

Endowment net asset composition by type of fund as of September 30, 2019 and 2018 is as follows (dollars in thousands):

| September 30, 2019 | Without Donor Restrictions | With Donor Restrictions | Total Net Endowment Assets |
|------------------------------------|---------------------------------------|------------------------------------|---|
| Donor-Restricted Endowments | \$ - | \$ 23,235 | \$ 23,235 |
| Total | \$ - | \$ 23,235 | \$ 23,235 |

| September 30, 2018 | Without Donor Restrictions | With Donor Restrictions | Total Net Endowment Assets |
|-----------------------------|-------------------------------|----------------------------|----------------------------------|
| Donor-Restricted Endowments | \$ - | \$ 23,335 | \$ 23,335 |
| Total | \$ - | \$ 23,335 | \$ 23,335 |

Changes in endowment net assets as of September 30, 2019 are as follows (dollars in thousands):

| September 30, 2019 | Without Donor Restrictions | With Donor Restrictions | Total Net Endowment Assets |
|--|---------------------------------------|------------------------------------|---|
| Endowment Net Assets, Beginning of Year | \$ - | \$ 23,335 | \$ 23,335 |
| Net Investment Return | - | 1,033 | 1,033 |
| Distributions | - | (1,133) | (1,133) |
| Endowment Net Assets, End of Year | \$ - | \$ 23,235 | \$ 23,235 |

BAPTIST COMMUNITY MINISTRIES

Notes to Consolidated Financial Statements

Note 16. Endowments (Continued)

Changes in endowment net assets as of September 30, 2018 are as follows (dollars in thousands):

| September 30, 2018 | Without Donor Restrictions | With Donor Restrictions | Total Net Endowment Assets |
|--|---------------------------------------|------------------------------------|---|
| Endowment Net Assets, Beginning of Year | \$ - | \$ 22,476 | \$ 22,476 |
| Net Investment Return | - | 1,920 | 1,920 |
| Distributions | - | (1,061) | (1,061) |
| Endowment Net Assets, End of Year | \$ - | \$ 23,335 | \$ 23,335 |

Note 17. Related Party Transactions

Various board members of BCM also volunteer and serve as board members of other charitable organizations that may occasionally receive funding from BCM. Total funding provided to these organizations for the years ended September 30, 2019 and 2018 was approximately \$2,389,000 and \$1,208,000, respectively. As of September 30, 2019 and 2018, amounts payable related to these grants totaled approximately \$116,000 and \$288,000, respectively, and are included in grants payable on the consolidated statement of financial position.

Additionally, in July 2016, BCM entered into a lease agreement for office space with an organization that shares at least one board member with BCM. See Note 9 for further disclosure of the lease.

Note 18. Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, January 30, 2020 and determined that no events occurred that require disclosure. No subsequent events occurring after January 30, 2020, have been evaluated for inclusion in these consolidated financial statements.