

AMERICAN BAPTIST CHURCHES IN THE U.S.A.
FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
DECEMBER 31, 2020 AND 2019

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AMERICAN BAPTIST CHURCHES IN THE U.S.A.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of General Ministries
American Baptist Churches in the USA
Valley Forge, Pennsylvania

We have audited the accompanying statements of American Baptist Churches in the U.S.A. (ABCUSA) which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 of 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 ABCUSA as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
May 19, 2021

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

STATEMENTS OF FINANCIAL POSITION

December 31, 2020 And 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,110,363	\$ 495,834
Accounts receivable from Baptist-related organizations, net of allowance for doubtful accounts	1,593,870	1,789,509
Prepaid expenses and other current assets	151,228	69,931
Mortgage receivable	3,719,040	-
Note receivable, current portion	<u>5,904</u>	<u>117,741</u>
Total Current Assets	7,580,405	2,473,015
NONCURRENT ASSETS		
Investments, at fair value	29,786,730	23,502,068
Investment in limited liability company	-	4,821
Property held for sale	-	6,227,355
Land, buildings and equipment, net	3,378,583	3,353,456
Note receivable, non-current portion	-	2,563,142
Lease acquisition costs, net	<u>43,325</u>	<u>60,233</u>
Total Assets	<u>\$40,789,043</u>	<u>\$38,184,090</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 115,586	\$ 110,147
Funds of others – Mission Support	1,163,080	1,372,745
Funds held for others	855,627	934,844
Refundable advance	619,959	-
Deferred lease revenue, current portion	<u>96,476</u>	<u>96,476</u>
Total Current Liabilities	2,850,728	2,514,212
NONCURRENT LIABILITIES		
Deferred lease revenue, non-current portion	<u>1,205,795</u>	<u>1,302,271</u>
Total Liabilities	<u>4,056,523</u>	<u>3,816,483</u>
NET ASSETS		
Without donor restrictions		
Board designated	25,025,217	24,385,402
Board undesignated	<u>5,422,677</u>	<u>4,064,642</u>
Total without donor restrictions	30,447,894	28,450,044
With donor restrictions	<u>6,284,626</u>	<u>5,917,563</u>
Total Net Assets	<u>36,732,520</u>	<u>34,367,607</u>
Total Liabilities and Net Assets	<u>\$40,789,043</u>	<u>\$38,184,090</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended December 31, 2020

(With Comparative Totals For The Year Ended December 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Operating revenues, gains and other support:				
American Baptist mission support				
Amounts received on behalf of others	\$24,213,027			
Amounts remitted to others	<u>\$22,392,810</u>			
Amounts retained by ABCUSA	\$ 1,820,217	\$ -	\$ 1,820,217	\$ 1,813,585
Donations and other revenue	880,492	-	880,492	2,151,380
Endowment return designated for current operations	1,139,599	338,495	1,478,094	1,242,782
Other investment income	767	-	767	9,620
Mission Center building operations	-	-	-	104,352
Net assets released from restrictions - operating:				
Satisfaction of program restrictions	<u>364,203</u>	<u>(364,203)</u>	<u>-</u>	<u>-</u>
Total operating revenues, gains and other support	<u>4,205,278</u>	<u>(25,708)</u>	<u>4,179,570</u>	<u>5,321,719</u>
Expenses				
Mission Center building operations	43,736	-	43,736	188,207
Treasurer's office	721,612	-	721,612	756,637
Mission resource development	320,489	-	320,489	382,797
Biennial	-	-	-	544,919
General Secretary and Associate General Secretary	467,305	-	467,305	666,545
Information technology	246,863	-	246,863	376,799
Building management	133,536	-	133,536	51,508
Development Office	79,789	-	79,789	243,318
Representative process	163,118	-	163,118	346,578
Regional operations	34,201	-	34,201	286,895
Distribution to others	217,180	-	217,180	282,834
General and administrative	214,839	-	214,839	355,624
Human resource development	45,034	-	45,034	31,800
Office of travel and conference planning	186,529	-	186,529	349,140
Transition Ministries	513,321	-	513,321	573,991
Denominational emphasis	185	-	185	12,198
ABC information	316,528	-	316,528	262,160
Orientation to American Baptist Life	-	-	-	139,282
Women in Ministry	188,808	-	188,808	236,699
Ecumenical relations	<u>74,105</u>	<u>-</u>	<u>74,105</u>	<u>79,356</u>
Total expenses	<u>3,967,178</u>	<u>-</u>	<u>3,967,178</u>	<u>6,167,287</u>
Excess (deficiency) of revenue and support over expenses	<u>238,100</u>	<u>(25,708)</u>	<u>212,392</u>	<u>(845,568)</u>
Other changes				
Investment return in excess of amounts designated for current operations	1,420,224	289,998	1,710,222	2,515,153
Other investment income	284,518	102,773	387,291	422,362
Net change in value of investment in limited liability company	(4,821)	-	(4,821)	(509,544)
Loss on sale of property held for investment	(36,647)	-	(36,647)	-
Lease revenue	<u>96,476</u>	<u>-</u>	<u>96,476</u>	<u>96,476</u>
Total other changes	<u>1,759,750</u>	<u>392,771</u>	<u>2,152,521</u>	<u>2,524,447</u>
Changes in net assets	<u>1,997,850</u>	<u>367,063</u>	<u>2,364,913</u>	<u>1,678,879</u>
Net Assets				
Beginning of year	<u>28,450,044</u>	<u>5,917,563</u>	<u>34,367,607</u>	<u>32,688,728</u>
End of year	<u>\$ 30,447,894</u>	<u>\$ 6,284,626</u>	<u>\$ 36,732,520</u>	<u>\$ 34,367,607</u>

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

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	2019 Total
Operating revenues, gains and other support:			
American Baptist mission support			
Amounts received on behalf of others	\$26,663,155		
Amounts remitted to others	<u>\$24,849,570</u>		
Amounts retained by ABCUSA	\$ 1,813,585	\$ -	\$ 1,813,585
Donations and other revenue	1,741,764	409,616	2,151,380
Endowment return designated for current operations	913,164	329,618	1,242,782
Other investment income	9,620	-	9,620
Mission Center building operations	104,352	-	104,352
Net assets released from restrictions - operating:			
Satisfaction of program restrictions	<u>385,258</u>	<u>(385,258)</u>	<u>-</u>
Total operating revenues, gains and other support	<u>4,967,743</u>	<u>353,976</u>	<u>5,321,719</u>
Expenses			
Mission Center building operations	188,207	-	188,207
Treasurer's office	756,637	-	756,637
Mission resource development	382,797	-	382,797
Biennial	544,919	-	544,919
General Secretary and Associate General Secretary	666,545	-	666,545
Information technology	376,799	-	376,799
Building management	51,508	-	51,508
Development Office	243,318	-	243,318
Representative process	346,578	-	346,578
Regional operations	286,895	-	286,895
Distribution to others	282,834	-	282,834
General and administrative	355,624	-	355,624
Human resource development	31,800	-	31,800
Office of travel and conference planning	349,140	-	349,140
Transition Ministries	573,991	-	573,991
Denominational emphasis	12,198	-	12,198
ABC information	262,160	-	262,160
Orientation to American Baptist Life	139,282	-	139,282
Women in Ministry	236,699	-	236,699
Ecumenical relations	<u>79,356</u>	<u>-</u>	<u>79,356</u>
Total expenses	<u>6,167,287</u>	<u>-</u>	<u>6,167,287</u>
Excess (deficiency) of revenue and support over expenses	<u>(1,199,544)</u>	<u>353,976</u>	<u>(845,568)</u>
Other changes			
Investment return in excess (deficit) of amounts designated for current operations	1,875,051	640,102	2,515,153
Other investment income	422,362	-	422,362
Net change in value of investment in limited liability company	(509,544)	-	(509,544)
Lease revenue	96,476	-	96,476
Net assets released from restrictions – non-operating	<u>1,163,738</u>	<u>(1,163,738)</u>	<u>-</u>
Total other changes	<u>3,048,083</u>	<u>(523,636)</u>	<u>2,524,447</u>
Changes in net assets	1,848,539	(169,660)	1,678,879
Net Assets			
Beginning of year	<u>26,601,505</u>	<u>6,087,223</u>	<u>32,688,728</u>
End of year	<u>\$28,450,044</u>	<u>\$ 5,917,563</u>	<u>\$34,367,607</u>

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

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

STATEMENT OF CASH FLOWS

For The Years Ended December 31, 2020 And 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Total change in net assets	\$ 2,364,913	\$ 1,678,879
Adjustments to reconcile total change in net assets to net cash (used) in/provided by operating activities:		
Depreciation	118,997	204,787
Loss on sale of property held for investment	36,647	-
Amortization of lease acquisition costs	16,908	16,908
Net realized and unrealized gain on investments	(2,252,116)	(2,875,915)
Net change/loss in value of LLC	4,821	509,544
Amortization of lease income	(96,476)	(96,476)
Decrease (increase) in operating assets:		
Accounts receivable from Baptist related organizations	195,639	(124,489)
Prepaid expenses and other assets	(81,297)	52,439
Increase (decrease) in operating liabilities:		
Accounts payable/accrued expenses	5,439	17,520
Funds of others and funds held for others-mission support	<u>(288,882)</u>	<u>104,718</u>
Net cash provided by (used for) operating activities	<u>24,593</u>	<u>(512,085)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds received from sale of property held for investment	2,474,068	-
Purchases of equipment	(146,524)	(1,584,447)
Proceeds from sale of investments, net of purchases	(4,032,546)	1,560,040
Contributions to LLC	-	(420,000)
Collections of notes receivable	<u>2,674,979</u>	<u>111,142</u>
Net cash provided by (used for) investing activities	<u>969,977</u>	<u>(333,265)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from refundable advance	<u>619,959</u>	<u>-</u>
Net cash provided by financing activities	<u>619,959</u>	<u>-</u>
Net decrease in cash and cash equivalents	1,614,529	(845,350)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>495,834</u>	<u>1,341,184</u>
End of year	<u>\$ 2,110,363</u>	<u>\$ 495,834</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Sales price of property held for investment, net of fees	\$ 8,078,653	\$ -
Less: Payments to be received on mortgage receivable	<u>(5,604,585)</u>	<u>-</u>
Net proceeds received	<u>\$ 2,474,068</u>	<u>\$ -</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 And 2019

(1) BACKGROUND

The American Baptist Churches in the U.S.A. ("**ABCUSA**"), as a manifestation of the church universal, bears witness to God's intention to bring redemption and wholeness to all creation. American Baptist believe that God's intention can be sought and followed in local congregations and other gatherings of Christians and in associational, regional, national and world bodies as they receive from one another mutual counsel and correction. Since Jesus Christ is the head of the church, each body of Christians, seeking to order its life in accordance with the Scriptures under the guidance of the Holy Spirit, has a proper responsibility under God for maintaining its life of worship, witness, and ministry.

The Internal Revenue Service ("**IRS**") has determined ABCUSA to be an "association of churches" and, therefore, exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The IRS has further determined that contributions made to the ABCUSA are deductible by the donors to the extent allowed by law. Management has reviewed their tax positions and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying financial statements of ABCUSA have been prepared using the accrual basis of accounting.

NET ASSETS

For accounting and reporting purposes, ABCUSA classifies its resources into two net asset categories according to externally (donor) imposed restrictions. A description of the two net asset categories follows:

Net Assets without donor restrictions – include the revenues and expenses associated with the principal mission of ABCUSA and are segregated as follows:

Board Undesignated: These may be used by management for any purpose without restriction.

Board Designated: Includes reserves such as the Functioning as Endowment, Proceeds from the Sale of the Mission Center, ABCUSA Operating Reserve and other designated balances. Although intended for specific use, these are not binding on ABCUSA.

Net Assets with donor restrictions – include gifts for which restrictions have not been met. Net assets with donor restrictions are limited by donors for a specific purpose or specified period. Also includes gifts and contributions which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of amounts held in highly liquid securities with maturities of less than three months at the time of purchase and are stated at cost, which approximates fair value.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

ACCOUNTS RECEIVABLE FROM BAPTIST RELATED ORGANIZATIONS

Accounts receivable consist of amounts due from Baptist related organizations and local churches for mission fund support and reimbursable costs, net of allowance for doubtful accounts. Allowance for doubtful accounts is determined by review of the aged accounts receivable listing for balances that are specifically identifiable as a credit risk or uncollectible.

INVESTMENTS

Investments are stated at fair value. Donated securities are recorded at fair value on the date of receipt. Investments primarily consist of funds invested in investment pools that are managed by the American Baptist Foundation (“ABF”) (an affiliate), and American Baptist Home Missions Societies (“ABHMS”) (an affiliate).

Investment income is recorded on the accrual basis of accounting and investment transactions are recorded on trade date. Investment income including realized and unrealized gains and losses on investments are recognized as income in the Statement of Activity.

INVESTMENT IN PARTNERSHIP AND COMPANY

In 2008, ABCUSA entered into a limited partnership agreement with the American Baptist Foreign Missions Society (“ABFMS”), American Baptist Home Mission Society (“ABHMS”), and the Ministers and Missionaries Benefits Board (“MMBB”) to form 588 Associates, LP (the “Partnership”), a Pennsylvania limited partnership, for the purpose of the acquisition of the Mission Center (the “Sale”), and 588 Associates, LLC (the “Company”), a Pennsylvania limited liability company, for the purpose of managing the activities and serving as the General Partner of the Partnership.

The Partnership agreed to dissolve effective September 30, 2016 in accordance with the Tenants in Common Agreement signed by ABCUSA, ABHMS, ABFMS and MMBB. Per the agreement, the land, building and equipment and the interest in all lease agreements were distributed to the partners based on their respective share in the partnership. The Company had provided the management of the property with the related leases distributed under the Tenants in Common Agreement. As of December 31, 2019, the property was held for sale and was settled in March 2020 (see note 4).

The value of ABCUSA’s investment in the Company as of December 31, 2019 was \$4,821 and its share of the Company’s loss for 2020 and 2019 was \$(4,821) and \$(509,544), respectively, which is recorded as “net change in value of investment in limited liability company” in the statement of activities.

PROPERTY, LAND, EQUIPMENT AND DEPRECIATION

Property, land, and equipment are recorded at cost. Depreciation is provided on a straight-line basis and is charged to expense over the estimated useful lives of the assets. Gains and losses on the disposition of assets are recognized in the Statement of Activity in the period of disposition. Repair and maintenance costs are expensed when incurred, while improvements that extend the life of the assets are capitalized.

ABCUSA reviews its assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

FUNDS OF OTHERS-MISSION SUPPORT

Mission Support consists of funds administered by ABCUSA but intended for affiliated organizations in accordance with the approved budget covenant. These payments are recorded as a liability, funds of others-Mission Support, when received.

FUNDS HELD FOR OTHERS

ABCUSA collects and distributes other (non-Mission Support) funds for the benefit of others. ABCUSA holds these funds in a fiduciary capacity and its sole responsibility regarding these funds is in the capacity of acting as an agent. These funds represent contributions for other institutions and are recorded as a liability, funds held for others, when received.

DEFERRED LEASE REVENUE

Deferred lease revenue represents rental income received for a land lease and is amortized using the straight-line method over the term of the leases.

CONTRIBUTIONS

ABCUSA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor-imposed restrictions are reclassified to net assets without donor-imposed restrictions and reported in the statement of activities as net assets released from restrictions. If the donor stipulations are met in the same reporting period, the contributions are reported as support without donor-imposed restrictions. ABCUSA recognizes contributions when cash, securities or other assets; or an unconditional promise to give; is received. Conditional promises to give – that is, with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31, 2020 and 2019, and the reported amounts of revenues and expenses for the years then ended. Actual results may differ from those estimates.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in footnote 13. Accordingly, certain costs have been allocated among programs and supporting services.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

(3) INVESTMENTS

ABCUSA carries its investments at fair value. ABCUSA utilizes various methods to measure the fair value of most of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – Unadjusted quoted prices in active markets at the measurement date for identical assets and/or liabilities. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.

Level 2 – Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost benefit constraints.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For example, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities are reflected as Level 2.

The fair values of the investment securities and the associated fair value measurements as of December 31, 2020 and 2019 are as follows:

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Type				
Mutual Funds – Fixed Income	<u>\$266,311</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 266,311
Investments reported at net asset value:				
Blended Portfolio of the American Baptist Foundation				12,585,545
Common Investment Fund of the American Home Mission Society				<u>16,934,874</u>
Total Investments				<u>\$29,786,730</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Type				
Mutual Funds – Fixed Income	<u>\$265,694</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 265,694
Investments reported at net asset value:				
Blended Portfolio of the American Baptist Foundation				11,782,257
Common Investment Fund of the American Home Mission Society				<u>11,454,117</u>
Total Investments				<u>\$23,502,068</u>

The Blended Portfolio of the ABF and the Common Investment Fund of the ABHMS represent investment pools managed by ABF and ABHMS, respectively. Each investment has a calculated net asset value and distributions may be taken at any time.

The Blended Portfolio of the ABF has a target allocation of 60% stock and 40% bonds, however, the target allocation may vary by plus or minus in each category.

The Common Investment Fund of the ABHMS has a long-term optimal allocation target of 66% stocks, 23% bonds and 11% alternatives, however, the allocation may vary by plus or minus in each category.

The following schedule summarizes the investment return on other investments and its classification in the statement of activities for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Endowment investment income		
Gains on investments	\$ 2,200,162	\$ 2,784,452
Investment income, net	<u>988,154</u>	<u>973,483</u>
Total endowment investment income	<u>\$3,188,316</u>	<u>\$ 3,757,935</u>
Other investment income – operating		
(Losses) / gains on investments	\$ (526)	\$ 564
Investment income, net	<u>1,293</u>	<u>9,056</u>
Total other investment income – operating	<u>\$ 767</u>	<u>\$ 9,620</u>
Other investment income – non-operating		
Gains on investments	\$ 52,480	\$ 90,899
Investment income, net	<u>334,811</u>	<u>331,463</u>
Total other investment income – non-operating	<u>\$ 387,291</u>	<u>\$ 422,362</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

(4) PROPERTY HELD FOR SALE AND MORTGAGE RECEIVABLE

In 2016, an Investment Partnership consisting of the Headquarters for ABCUSA and other Baptist Organizations, (“the Partnership”) in which ABCUSA held a 35% interest was dissolved, and in connection with the dissolution, ABCUSA received its share of the property previously held by the Partnership. ABCUSA’s 35% ownership share of the partnership property was \$6,643,762. In 2018, ABCUSA along with the other owners of the former headquarters signed an agreement of sale subject to due diligence. In 2019, ABCUSA relocated its headquarters. The Property held for sale had a net book value of \$6,227,355 as of December 31, 2019. On March 11, 2020, the sale of the property settled. ABCUSA received approximately \$2,474,000 in cash and a 35% interest in an interest free ten-year mortgage. The mortgage holder has elected to exercise an acceleration clause in the agreement and the mortgage was paid off in full on April 30th, 2021 at the present value of the future payments at a 5.0% discount rate which totaled approximately \$3,719,000.

(5) LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment as of December 31, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 604,916	\$ 414,916
Buildings	2,835,740	2,892,620
Computer software and equipment	523,274	520,426
Leasehold improvements	37,962	37,962
Office equipment	<u>480,532</u>	<u>472,374</u>
Subtotal	4,482,424	4,338,298
Accumulated depreciation	<u>(1,103,841)</u>	<u>(984,842)</u>
Total property, land and equipment, net	<u>\$ 3,378,583</u>	<u>\$ 3,353,456</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$118,997 and \$204,787, respectively.

ABCUSA purchased a building for its offices on December 21, 2018 in the amount of \$1,347,985 and provided renovations of \$133,120 and \$1,544,635 during the years ending December 31, 2020 and 2019, respectively. ABCUSA began its occupancy in the building in October 2019.

(6) REFUNDABLE ADVANCE

On April 20, 2020, ABCUSA received a \$744,802 loan under the Small Business Administration’s (“SBA”) Payment Protection Program (the “PPP Loan”). ABCUSA paid out \$124,843 to related parties to assist with their payroll expenses. ABCUSA has recorded \$619,959 as a Refundable advance on the Statement of Financial Position. ABCUSA considers this to be a conditional contribution as it expects to meet the criteria for loan forgiveness upon incurring eligible expenditures and when its application for forgiveness is accepted by the SBA. ABCUSA considers the incurrence of eligible expenses and the acceptance of its application for forgiveness to be barriers in the PPP Loan agreement and as such, will recognize contribution income when these conditions are substantially met. If such conditions are not met, ABCUSA is required to repay the PPP Loan in two years from the date of the agreement at a 1% annual interest rate.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

(7) RELATED PARTY LEASE COMMITMENT

Prior to the move into the new building, ABCUSA had leased its space in the Mission Center Building under a lease agreement with 588 Associates LP, which was dissolved on September 30, 2016 and the lease agreement was transferred to the Tenants in Common (*see Note 2*). The rent expense for was \$159,952 for the year ended December 31, 2019.

During 2019, the fees collected for building related services from affiliated organizations totaled \$104,352, which is included in the “Mission Center building operations” revenue and expense lines in the statement of activities. The operation of the Mission Center ceased upon ABCUSA’s move from the building (see notes 4 and 5).

(8) NOTES RECEIVABLE

ABCUSA and other affiliates entered into a loan agreement with American Baptist Historical Society (“*ABHS*”), an affiliate, to assist in the relocation of ABHS to another geographical location. The loan agreement with ABCUSA, ABFMS, ABHMS, and MMBB (collectively, the “lessors”) totaled \$464,970. ABCUSA contributed 15% of the principal totaling \$69,750.

Commencing October 1, 2009 and thereafter interest accrues at 5%. As of December 31, 2020 and 2019, ABCUSA’s share of the principal balance due was \$5,904 and \$9,893, respectively. The balance of this note is due in 2021.

ABCUSA entered into loan agreements with ABFMS, ABHMS, and MMBB in conjunction with the 2009 sale of the Mission Center to the partnership. The notes, which carry an interest rate of 7%, are payable in monthly installments over 10 years for MMBB and over 25 years for ABHMS. During 2020, ABHMS paid in full the remaining balance due on its outstanding note. Previously, ABFMS in 2011 and MMBB in 2018 paid off their outstanding balance. As of December 31, 2019 the outstanding note receivable balance due from ABHMS was \$2,670,990, which was collateralized by ABHMS’s interest in the Mission Center Property.

(9) LEASE OF AMERICAN BAPTIST FREEDOM CENTER

In July 1984, ABCUSA entered into an agreement to lease 24 acres of the building property to a third party. The initial lease term is for 50 years with renewal options for an additional 49 years at the lessee’s discretion. In 1990, the lease was amended to provide the lessee with additional development considerations on the property. The lease has been classified as an operating lease.

Rent received for the initial lease term approximated \$4,690,000. This amount was deferred and is amortized using the straight-line method over 50 years. Amortization of deferred lease revenue for each of the years ended December 31, 2020 and 2019 was \$96,476. Deferred lease revenue was \$1,302,271 and \$1,398,747 at December 31, 2020 and 2019, respectively.

Costs incurred in negotiating and consummating the lease transactions described above totaled \$624,496. These costs were deferred and are amortized using the straight-line method over various periods of up to 50 years. Amortization on these deferred lease acquisition costs for each of the years ended December 31, 2020 and 2019 was \$16,908. Accumulated amortization was \$581,531 and \$564,263 as of December 31, 2020 and 2019, respectively. These lease acquisition costs were \$43,325 and \$60,233 at December 31, 2020 and 2019, respectively.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

In connection with the 2009 sale of the Mission Center Property to ABFMS, ABHMS and MMBB (see Note 8), ABCUSA agreed to share the proceeds, if any, from this leasehold when it matures in 2035 in the following proportions: ABFMS – 3.33%, ABHMS – 23.34%, and MMBB – 16.66%. ABCUSA retains 56.67%.

(10) RETIREMENT PLAN

Substantially all of ABCUSA full-time employees are covered by the American Baptist Churches Retirement Plan (the “*Plan*”), a multi-employer defined contribution plan in accordance with Section 403(b) of the Internal Revenue Code. ABCUSA contributes 13 percent of each participant’s annual compensation. Plan expenses for the years ended December 31, 2020 and 2019 were \$256,009 and \$322,549, respectively.

Exempt employees are eligible to participate in the Plan immediately upon enrollment. Non-exempt employees are eligible to participate in the Plan upon completion of three years of service. Upon completion of ten years of service for non-exempt employees, a lump sum contribution will be made that is equivalent to contributions that would have been made during the participant’s first three years of services. All participants are fully vested in the Plan upon enrollment.

(11) AMOUNTS RECEIVED ON BEHALF OF AND REMITTED TO OTHERS

Amounts received on behalf of and remitted to others through the American Baptist Mission Support (“*ABMS*”) during the years ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Amounts received through ABMS:		
ABC Offerings and Other Objectives	\$17,799,877	\$19,409,387
United Mission	6,277,390	6,931,866
Other campaigns	44,987	210,053
Gifts to other agencies	<u>90,773</u>	<u>111,849</u>
Total amounts received through ABMS	<u>24,213,027</u>	<u>26,663,155</u>
Amounts received on behalf of others were distributed as follows:		
National Related Boards	13,977,556	15,411,555
Regions, States, and Baptist Related Activities	5,371,905	6,339,112
Other organizations	2,826,003	2,713,019
Shared Support Services to Related Boards	153,917	316,565
Mission Initiative Fund Disbursements	<u>63,429</u>	<u>69,319</u>
Total amounts distributed to others	<u>22,392,810</u>	<u>24,849,570</u>
Amounts retained by American Baptist Churches in the U.S.A. in accordance with budget covenant provisions	<u>\$ 1,820,217</u>	<u>\$ 1,813,585</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

(12) NET ASSETS

Net assets designated by the Board consisted of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
ABCUSA Operating Reserve	\$ 1,066,802	\$ 1,066,802
Mission Center Proceeds – Current Operations	23,958,415	17,091,245
Property held for sale	<u>-</u>	<u>6,227,355</u>
Total designated by the Board	<u>\$ 25,025,217</u>	<u>\$ 24,385,402</u>

Net assets with donor-imposed restrictions are available for the following purposes at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Funds functioning as endowment:		
Roblee Fund	\$ 1,502,144	\$ 1,480,316
Other Funds	1,210,352	1,054,133
Other	69,067	69,775
Asian Ministries	487,389	409,616
Accumulated income (deficit) on endowment funds	<u>(197,502)</u>	<u>(309,453)</u>
Total restricted by purpose	<u>3,071,450</u>	<u>2,704,387</u>
Perpetual in nature:		
Women in Ministry	2,323,285	2,323,285
Operational Support	<u>889,891</u>	<u>889,891</u>
Total perpetual in nature	<u>3,213,176</u>	<u>3,213,176</u>
Total restricted net assets	<u>\$ 6,284,626</u>	<u>\$ 5,917,563</u>

Net assets subject to donor-imposed restrictions released from restriction for the years ended December 31, 2020 and 2019 comprised the following:

	<u>2020</u>	<u>2019</u>
Operating		
Operational Support	\$ 217,179	\$ 234,089
Asian Ministries	25,000	-
Women in Ministry	121,316	95,529
Specifics	<u>708</u>	<u>55,640</u>
	<u>364,203</u>	<u>385,258</u>
Non-Operating		
Roblee Fund - Purchase of building and related costs	<u>-</u>	<u>1,163,738</u>
	<u>\$ -</u>	<u>\$ 1,548,996</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

Endowment net asset composition by type of fund as of December 31, 2020 and 2019:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds perpetual in nature-			
Original gift amount	\$ -	\$ 3,213,176	\$ 3,213,176
Donor restricted – other funds	-	2,514,994	2,514,994
Funds functioning as endowment	<u>21,816,786</u>	<u>-</u>	<u>21,816,786</u>
Total funds	<u>\$21,816,786</u>	<u>\$ 5,728,170</u>	<u>\$27,544,956</u>

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds perpetual in nature-			
Original gift amount	\$ -	\$ 3,213,176	\$ 3,213,176
Donor restricted – other funds	-	2,224,996	2,224,996
Funds functioning as endowment	<u>15,798,714</u>	<u>-</u>	<u>15,798,714</u>
Total funds	<u>\$15,798,714</u>	<u>\$ 5,438,172</u>	<u>\$21,236,886</u>

Change in endowment net assets for the years ended December 31, 2020 and 2019:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2019	<u>\$15,798,714</u>	<u>\$ 5,438,172</u>	<u>\$21,236,886</u>
Investment return:			
Investment income, net	735,523	252,631	988,154
Net realized/unrealized gains	<u>1,824,300</u>	<u>375,862</u>	<u>2,200,162</u>
Total investment return	<u>2,559,823</u>	<u>628,493</u>	<u>3,188,316</u>
Transfer of funds	4,597,848	-	4,597,848
Additional appropriation for operations	(126,000)	-	(126,000)
Appropriation of assets for expenditure in accordance with the spending policy	<u>(1,013,599)</u>	<u>(338,495)</u>	<u>(1,352,094)</u>
Endowment net assets, December 31, 2020	<u>\$21,816,786</u>	<u>\$ 5,728,170</u>	<u>\$27,544,956</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2018	\$14,126,815	\$ 5,961,808	\$20,088,623
Investment return:			
Investment income, net	716,797	256,686	973,483
Net realized/unrealized gains	<u>2,071,418</u>	<u>713,034</u>	<u>2,784,452</u>
Total investment return	<u>2,788,215</u>	<u>969,720</u>	<u>3,757,935</u>
Appropriation of income without restriction – for additional operational support	(203,152)	-	(203,152)
Appropriation for purchase of building	-	(1,163,738)	(1,163,738)
Appropriation of assets for expenditure in accordance with the spending policy	<u>(913,164)</u>	<u>(329,618)</u>	<u>(1,242,782)</u>
Endowment net assets, December 31, 2019	\$15,798,714	\$ 5,438,172	\$21,236,886

RETURN OBJECTIVES AND RISK PARAMETERS

ABCUSA's endowment funds are invested in various investments, primarily with ABF and ABHMS (*See Note 3*). According to policy approved by the Board, funds are invested in a manner to preserve the real purchasing power of the assets after all withdrawals and fees by earning a total rate of return over full market cycles of 3 to 5 years which will support the spending policy stated below. Additionally, the total rate of return (net of fees) is expected to equal or exceed a passive investment in commonly quoted market indices (benchmarks) based on a long-term optimal asset allocation.

To satisfy its long-term rate-of-return objectives, ABCUSA 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). ABCUSA targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

SPENDING POLICY

ABCUSA sets the draw from the endowment funds by approval of the BGM Finance Committee annually. The percentage draw for operations and disbursements to related partners ranged from 4% to 5% for all restricted and funds functioning as endowment. Effective January 1, 2004, ABCUSA was assigned American Baptist Women in Ministry ("*ABWIM*") as a department within the Office of the General Secretary by the General Board, and thus, investments held in an endowment fund were transferred to ABCUSA to support the operations of the new department. ABWIM's percentage draw was 5% for 2020 and 2019. The maximum percentage allowable under terms of ABCUSA's Covenant Agreement with the Ministers & Missionaries Benefit Board ("*MMBB*") is 8%.

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 state standards require ABCUSA to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. At December 31, 2020 and 2019, funds with an original gift value of \$2,323,285 and \$2,323,285 were "underwater" by \$197,502 and \$309,453, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds. ABCUSA has a policy that permits spending from underwater endowment funds.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

INTERPRETATION OF RELEVANT LAW

The Board of ABCUSA has interpreted the applicable state standards and guidelines for the prudent management of an endowment fund 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, ABCUSA 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 (i.e. the accumulated realized and unrealized gains/losses) 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 organization.

(13) FUNCTIONAL CLASSIFICATION OF EXPENSES

ABCUSA is required to present expenses on a functional basis if natural classifications are presented in the Statement of Activities. The functional allocation of expenses is based primarily on the amount of direct cost spent on the program or activity as follows for the years ended December 31, 2020 and 2019:

<u>2020</u>	<u>Total Expenses</u>	<u>Program Expenses</u>	<u>Management General</u>	<u>Fundraising Activities</u>
Salaries and wages	\$ 1,767,993	\$ 1,016,576	\$ 637,991	\$ 113,426
Employee benefits	491,760	255,835	201,018	34,907
Payroll taxes	97,171	44,926	44,343	7,902
Fees for services	325,734	236,365	78,679	10,690
Office expenses	74,518	32,930	39,016	2,572
Information Technology	39,617	14,602	15,281	9,734
Occupancy	9,968	-	9,968	-
Travel	63,238	57,229	4,841	1,168
Conferences, conventions and meetings	14,073	13,893	-	180
Depreciation	118,997	12,684	105,785	528
Insurance	45,635	9,608	35,340	687
Program expenses	717,321	489,715	223,458	4,148
Other expenses	<u>201,153</u>	<u>56,275</u>	<u>121,396</u>	<u>23,482</u>
Total expenses	<u>\$ 3,967,178</u>	<u>\$ 2,240,638</u>	<u>\$ 1,517,116</u>	<u>\$ 209,424</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

<u>2019</u>	<u>Total Expenses</u>	<u>Program Expenses</u>	<u>Management General</u>	<u>Fundraising Activities</u>
Salaries and wages	\$ 2,162,282	\$ 1,303,244	\$ 646,954	\$ 212,084
Employee benefits	554,373	302,850	205,768	45,755
Payroll taxes	105,928	44,849	43,674	17,405
Fees for services	389,623	222,254	151,502	15,867
Advertising and promotion	5,062	4,352	-	710
Office expenses	39,224	16,875	20,264	2,085
Information Technology	102,025	45,463	42,562	14,000
Occupancy	229,165	84,394	129,203	15,568
Travel	235,520	196,413	23,112	15,995
Conferences, conventions and meetings	200,329	194,516	-	5,813
Depreciation	212,189	3,919	208,270	-
Insurance	40,958	11,461	27,473	2,024
Program expenses	1,550,075	1,298,761	244,089	7,225
Other expenses	<u>340,534</u>	<u>117,499</u>	<u>181,130</u>	<u>41,905</u>
Total expenses	<u>\$ 6,167,287</u>	<u>\$ 3,846,850</u>	<u>\$ 1,924,001</u>	<u>\$ 396,436</u>

(14) CREDIT RISK AND OTHER CONCENTRATIONS

ABCUSA is required by Accounting Standards Codification (“ASC”) 825, “*Financial Instruments*” to disclose significant concentrations of credit risk regardless of the degree of such risk. As of December 31, 2020 and 2019, ABCUSA maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation. This risk is managed by ABCUSA in continuing to monitor the financial institutions in which it maintains relationships.

(15) CONTINGENCIES

ABCUSA is involved in litigation from time to time arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or, if not covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position and results of activities and cash flows of ABCUSA, if disposed of unfavorably.

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The current operating environment is changing rapidly. The extent of the impact that the COVID-19 pandemic will have on the financial performance of ABCUSA’s operations and investments is not reasonably estimable as of the date that the financial statements were available for issuance. ABCUSA will continue to monitor the effects of the COVID-19 pandemic and will adjust its operations as necessary.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2020 And 2019

(16) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects ABCUSA's financial assets as of December 31, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions.

Financial Assets	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,110,363	\$ 495,834
Investments	29,761,829	23,502,068
Mortgage receivable, current portion	3,719,040	-
Notes receivable, current portion	5,904	117,741
Accounts receivable	<u>1,593,870</u>	<u>1,789,509</u>
Total financial assets	37,191,006	25,905,152
Less:		
Board-designated quasi and true endowment funds	(27,544,956)	(21,236,886)
Net assets with donor restrictions not expected to be spent within one year	<u>(556,456)</u>	<u>(479,391)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 9,089,594</u>	<u>\$ 4,188,875</u>

ABCUSA strives to maintain liquid financial assets to be available as its general expenditures, liabilities and other obligations become due. Financial assets in excess of daily cash requirements are invested in money market funds and certificates of deposit. As part of ABCUSA's liquidity management, it has a practice to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. ABCUSA has donor-restricted endowment and investments used similar to quasi-endowment. Although ABCUSA does not intend to spend from its quasi-endowment of approximately \$22 million, with the exception of budgeted draws, amounts from its quasi-endowment could be made available, if necessary, with Board approval.

(17) SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 19, 2021, the date which the financial statements were available to be issued. There were no material subsequent events required to be disclosed.