

# **AMERICAN BAPTIST CHURCHES IN THE U.S.A.**

---

**INDEPENDENT AUDITORS' REPORT**

**and**

**FINANCIAL STATEMENTS**

**For the years ended December 31, 2011 and 2010**



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## CONTENTS

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	Page
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3-4
Statements of Cash Flows	5
Notes to Financial Statements	6-19
Supplemental Information:	
Supplement to the Statement of Financial Position	20-22
Supplemental Schedules of Activities of Unrestricted Net Assets (with segregation of OGS operations)	23
Supplemental Schedule of Activities for Mission Center Building Operations	24
Supplemental Schedule of Net Assets	25
Supplemental Schedule of Office of General Secretary Designated Reserves	26

## INDEPENDENT AUDITORS' REPORT

To the General Board of  
American Baptist Churches in the U.S.A  
Valley Forge, Pennsylvania

We have audited the accompanying statements of financial position of American Baptist Churches in the U.S.A. (ABC/USA) as of December 31, 2011 and 2010, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of ABC/USA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC/USA as of December 31, 2011 and 2010, 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 20 through 26 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Milligan & Company, LLC*

June 6, 2012  
Philadelphia, PA

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
 Statements of Financial Position  
 December 31, 2011 and 2010

ASSETS

	2011	2010
Current assets:		
Cash and cash equivalents	\$ 3,240,639	\$ 3,163,837
Certificates of deposit	200,509	249,403
Accounts receivable from Baptist-related organizations, net of allowance for doubtful accounts of \$4,537 for 2011 and 2010	2,126,545	2,501,011
Prepaid expenses and other current assets	41,536	63,943
Note receivable, current portion (See Note 6)	513,427	545,901
Total current assets	6,122,656	6,524,095
Noncurrent assets:		
Investments, at fair value (See Note 3)	16,072,064	15,071,248
Investment in partnership (See Note 4)	7,101,190	7,085,549
Property, land and equipment, net (See Note 5)	607,473	660,739
Lease acquisition costs, net (See Note 7)	195,497	212,405
Note receivable, non-current portion (See Note 6)	6,826,315	8,133,375
Assets whose use is limited (See Note 3)	136,078	122,724
Total assets	\$ 37,061,273	\$ 37,810,135

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued liabilities	\$ 280,172	\$ 408,268
Funds of others	1,624,410	1,790,480
Funds held for others - mission support	1,064,688	1,109,853
Deferred lease revenue, current portion (See Note 7)	96,476	96,476
Total current liabilities	3,065,746	3,405,077
Noncurrent liabilities:		
Deferred lease revenue, non-current portion (See Note 7)	2,074,079	2,170,555
Total liabilities	5,139,825	5,575,632
Net assets:		
Unrestricted:		
Board designated	21,268,331	21,078,965
Board undesignated	3,366,765	3,600,242
Total unrestricted	24,635,096	24,679,207
Temporarily restricted	4,638,582	4,836,604
Permanently restricted	2,647,770	2,718,692
Total net assets	31,921,448	32,234,503
Total liabilities and net assets	\$ 37,061,273	\$ 37,810,135

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

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
Statement of Activities and Changes in Net Assets  
for the year ended December 31, 2011  
(with comparative totals for the year ended December 31, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Revenues, gains, and other support:					
American Baptist mission support:					
Amounts received on behalf of others (See Note 9)	\$ 32,428,207				
Amounts remitted to others (See Note 9)	<u>30,218,152</u>				
Amounts retained by ABC/USA	\$ 2,210,055	\$ -	\$ -	\$ 2,210,055	\$ 2,162,028
Donations and other revenue	2,617,122	8,500	-	2,625,622	1,748,316
Investment income on estate gifts and endowments	55,149	247,878	-	303,027	261,624
Other investment income	379,410	-	114,435	493,845	548,217
Net realized and unrealized gain/(loss) on investments	(326,050)	(203,756)	(100,357)	(630,163)	921,595
Net change in value of investment in partnership	(71,859)	-	-	(71,859)	7,412
Mission Center building operations	901,621	-	-	901,621	926,348
Lease revenue (See Note 7)	96,476	-	-	96,476	96,476
Net assets released from restrictions:					
Satisfaction of program restrictions	<u>335,644</u>	<u>(250,644)</u>	<u>(85,000)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>6,197,568</u>	<u>(198,022)</u>	<u>(70,922)</u>	<u>5,928,624</u>	<u>6,672,016</u>
Expenses:					
Mission Center building operations	904,421	-	-	904,421	923,883
Treasurer's office	695,475	-	-	695,475	895,863
Mission resource development	648,644	-	-	648,644	624,753
Biennial	527,650	-	-	527,650	-
General secretary	493,585	-	-	493,585	458,886
Representative process	479,375	-	-	479,375	445,897
Regional operations	466,868	-	-	466,868	323,307
Distribution to others	387,738	-	-	387,738	331,629
General and administrative	362,375	-	-	362,375	179,423
Human resource development	329,284	-	-	329,284	321,550
Office of travel and conference planning	308,066	-	-	308,066	335,966
Denominational emphasis	227,039	-	-	227,039	-
ABC information	200,911	-	-	200,911	213,329
Women in Ministry	129,833	-	-	129,833	82,179
Ecumenical relations	103,671	-	-	103,671	99,330
Orientation to American Baptist Life	<u>98,363</u>	<u>-</u>	<u>-</u>	<u>98,363</u>	<u>117,850</u>
Total expenses	<u>6,363,298</u>	<u>-</u>	<u>-</u>	<u>6,363,298</u>	<u>5,353,845</u>
Changes in net assets before transfers	(165,730)	(198,022)	(70,922)	(434,674)	1,318,171
Designated reserve transfers	<u>121,619</u>	<u>-</u>	<u>-</u>	<u>121,619</u>	<u>134,161</u>
Changes in net assets after transfers	(44,111)	(198,022)	(70,922)	(313,055)	1,452,332
Net assets, beginning of year	<u>24,679,207</u>	<u>4,836,604</u>	<u>2,718,692</u>	<u>32,234,503</u>	<u>30,782,171</u>
Net assets, end of year	<u>\$ 24,635,096</u>	<u>\$ 4,638,582</u>	<u>\$ 2,647,770</u>	<u>\$ 31,921,448</u>	<u>\$ 32,234,503</u>

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

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
Statement of Activities and Changes in Net Assets  
for the year ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>
Revenues, gains, and other support:				
American Baptist mission support:				
Amounts received on behalf of others (See Note 9)	\$ 35,393,495			
Amounts remitted to others (See Note 9)	<u>33,231,467</u>			
Amounts retained by ABC/USA	\$ 2,162,028	\$ -	\$ -	\$ 2,162,028
Donations and other revenue	1,745,316	3,000	-	1,748,316
Investment income on estate gifts and endowments	53,784	207,840	-	261,624
Other investment income	442,530	-	105,687	548,217
Net realized and unrealized gain/(loss) on investments	494,766	333,505	93,324	921,595
Net change in value of investment in partnership	7,412	-	-	7,412
Mission Center building operation	926,348	-	-	926,348
Lease revenue (See Note 7)	96,476	-	-	96,476
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>290,546</u>	<u>(219,310)</u>	<u>(71,236)</u>	<u>-</u>
Total revenues, gains and other support	<u>6,219,206</u>	<u>325,035</u>	<u>127,775</u>	<u>6,672,016</u>
Expenses:				
Mission Center building operations	923,883	-	-	923,883
Treasurer's office	895,863	-	-	895,863
Mission resource development	624,753	-	-	624,753
General secretary	458,886	-	-	458,886
Representative process	445,897	-	-	445,897
Office of travel and conference planning	335,966	-	-	335,966
Distribution to others	331,629	-	-	331,629
Regional operations	323,307	-	-	323,307
Human resource development	321,550	-	-	321,550
ABC information	213,329	-	-	213,329
General and administrative	179,423	-	-	179,423
Orientation to American Baptist Life	117,850	-	-	117,850
Ecumenical relations	99,330	-	-	99,330
Women in Ministry	82,179	-	-	82,179
Biennial	-	-	-	-
Total expenses	<u>5,353,845</u>	<u>-</u>	<u>-</u>	<u>5,353,845</u>
Changes in net assets before transfers	865,361	325,035	127,775	1,318,171
OGS designated reserve transfers	<u>134,161</u>	<u>-</u>	<u>-</u>	<u>134,161</u>
Changes in net assets after transfers	999,522	325,035	127,775	1,452,332
Net assets, beginning of year	<u>23,679,685</u>	<u>4,511,569</u>	<u>2,590,917</u>	<u>30,782,171</u>
Net assets, end of year	<u>\$ 24,679,207</u>	<u>\$ 4,836,604</u>	<u>\$ 2,718,692</u>	<u>\$ 32,234,503</u>

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

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
 Statements of Cash Flows  
 for the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Total change in net assets	\$ <u>(313,055)</u>	\$ <u>1,452,332</u>
Adjustments to reconcile total change in net assets to net cash provided/(used) in operating activities:		
Depreciation	58,664	103,409
Amortization of lease acquisition costs	16,908	16,908
Net realized and unrealized gain on investments	630,163	(921,595)
Net change in value of investment in partnership	71,859	(7,412)
Amortization of lease income	(96,476)	(96,476)
Gain on sale of building	-	-
Decrease (increase) in operating assets:		
Accounts receivable from Baptist related organizations	374,466	174,207
Prepaid expenses and other assets	9,053	(46,118)
Increase (decrease) in operating liabilities:		
Accounts payable/accrued expenses	(128,096)	(103,569)
Funds of others and funds held for others-mission support	<u>(211,235)</u>	<u>(148,021)</u>
Net cash provided by operating activities	<u>412,251</u>	<u>423,665</u>
Cash flows from investing activities:		
Purchases of equipment	(5,398)	(11,602)
Contribution to investment in partnership	(87,500)	-
Redemptions of certificates of deposit, net of purchases	48,894	(1,367)
Purchases of investments, net of proceeds from sales	(1,630,979)	(936,517)
Principal collections of notes receivable, net of note issuances	<u>1,339,534</u>	<u>520,399</u>
Net cash used in investing activities	<u>(335,449)</u>	<u>(429,087)</u>
Net increase/(decrease) in cash and cash equivalents	76,802	(5,422)
Cash and cash equivalents, beginning of year	<u>3,163,837</u>	<u>3,169,259</u>
Cash and cash equivalents, end of year	<u>\$ 3,240,639</u>	<u>\$ 3,163,837</u>

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

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS  
for the years ended December 31, 2011 and 2010

1. Background:

The accompanying financial statements comprise the accounts maintained for the American Baptist Churches in the U.S.A. (ABC/USA) and funds administered in a fiduciary capacity by ABC/USA for the benefit of others. ABC/USA is charged with a number of specific responsibilities which articulate the vision of the denomination as it seeks to share the Good News of Jesus Christ. ABC/USA provides servant leadership through vision, resources, training, administration and counsel for the whole denomination, so that American Baptists can effectively “carry out the common task of mission and ministry in our time” in fulfillment of the Great Commission.

ABC/USA is a not-for-profit religious organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies:

Basis of Accounting:

The accompanying financial statements of ABC/USA have been prepared using the accrual basis of accounting.

Financial Statement Presentation:

ABC/USA reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31, 2011 and 2010, and the reported amounts of revenues and expenses for the years then ended. Actual results can differ from those estimates.

Cash and Cash Equivalents:

Cash and cash equivalents include highly liquid investments with original maturities of three months or less at the time of purchase and are stated at cost, which approximates fair value. At times, these amounts may exceed federally insured limits.



AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended December 31, 2011 and 2010

2. Summary of Significant Accounting Policies, Continued:

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 credit risk or uncollectible. Additionally, 10% of outstanding balances older than 180 days are included in the allowance amount.

Investments:

Investments consist of funds invested in mutual funds that are managed by the American Baptist Foundation (“ABF”) (an affiliate), American Baptist Home Missions Societies (“ABHMS”) (an affiliate), and Merrill Lynch on behalf of ABC/USA. These mutual funds include investments held for assets with donor-imposed restrictions.

Investments are reported at fair value. Donated securities are recorded at fair value on the date of receipt. Realized and unrealized gains or losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law. Interest and dividend income is recorded on the accrual basis and investment transactions are recorded on trade date basis.

Investment in Partnership:

In 2008, ABC/USA entered into a limited partnership agreement with the American Baptist Foreign Missions Society (“ABFMS”), 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 with the purpose of managing the activities and serving as the General Partner of the Partnership. ABC/USA holds a 34.65% interest in the Partnership and a 35% interest in the Company, which holds a 1% interest in the Partnership. ABC/USA reports its investment in the Partnership based on the equity method of accounting. See Note 4.

Property, Land, Equipment and Depreciation:

Property, land, and equipment are recorded at cost. Depreciation of these assets is computed 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 operations in the period of disposition. Repair and maintenance costs are expensed when incurred, while improvements that extend the life of the assets are capitalized.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended December 31, 2011 and 2010

2. Summary of Significant Accounting Policies, Continued:

Property, Land, Equipment and Depreciation, continued:

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

Assets Whose Use Is Limited:

Assets whose use is limited consist of investments held for supplemental retirement benefits by the MMBB on behalf of ABC/USA.

Funds of Others:

ABC/USA collects and distributes funds for the benefit of others. ABC/USA 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 donations, contributions and gifts which are disbursed to beneficiaries.

Funds Held for Others-Mission Support:

Funds held for others include the residual balances of American Baptist Mission Support (ABMS) funds administered by ABC/USA. These funds represent a liability of ABC/USA until spent for designated purposes in accordance with the budget covenant.

Deferred Lease Revenue:

Deferred lease revenue is amortized using the straight-line method over the term of the lease.

Net Assets:

A description of each net asset category is as follows:

- *Unrestricted Net Assets:* Represents assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as board designations.
  - *Board Designated:* Includes reserves such as the Supplemental Retirement Benefit (TAS) Reserve, Biennial Reserve, the reserve for Representative Process, and the OGS Operating Reserve. In addition, this includes assets related to the sale of the Mission Center and the related investment fund. Although intended for specific use, these are not binding on the organization.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended December 31, 2011 and 2010

2. Summary of Significant Accounting Policies, Continued:

Net Assets, continued:

- *Board Undesignated:* These may be used by management for any purpose without restriction.
- *Temporarily Restricted Net Assets:* Temporarily restricted net assets are those whose use by ABC/USA has been limited by donors for a specific purpose or time period. These net assets consist of gifts for which donor-imposed restrictions have not been met.
- *Permanently Restricted Net Assets:* Permanently restricted net assets consist of permanent endowment fund investments to be held indefinitely, the income from which is expendable when the restrictions imposed by donors have been met. In addition, income from certain endowment investments is restricted for distribution to specified affiliated organizations.

Contributions:

Contributions are recognized when a donor makes a promise to ABC/USA that is, in substance, unconditional. Contributions restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the period in which the contributions are received. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

3. Fair Value Measurements:

In accordance with FASB ASC Topic 820, "Fair Value Measurements and Disclosures" (Topic 820), the fair value of investments is categorized into a three-tier hierarchy, which assigns priorities to inputs of valuation techniques used to measure fair value. Inputs refer to assumptions market participants would use when pricing an asset and are classified as observable (i.e. assumptions based on market prices obtained from independent sources) and unobservable (i.e. assumptions based on best information available or the reporting entity's own assumptions). The hierarchy of inputs is summarized below:

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended December 31, 2011 and 2010

3. Fair Value Measurements, Continued:

- Level 1 – observable, represents assets with quoted market prices for identical assets (registered securities).
- Level 2 – other observable, not quoted market prices for identical assets. Inputs that are obtained from the utilization of models or other valuation methodologies.
- Level 3 – unobservable, reflects reporting entity’s own assumptions and significant management judgments that would be made by market participants.

The fair values of the investment securities, including assets whose use is limited, which ABC/USA held as of December 31, 2011 and 2010, are as follows:

	2011			
	<u>Fair Value Measurement at Reporting Date Using:</u>			
	<u>Total</u> <u>Fair Value</u>	Observable Inputs <u>(Level 1)</u>	Other Observable Inputs <u>(Level 2)</u>	Unobservable Inputs <u>(Level 3)</u>
Investments – mutual funds	\$16,072,064	\$ 317,956	\$15,754,108	\$ -
Assets whose use is limited - mutual funds	136,078	-	136,078	-
	<u>\$16,208,142</u>	<u>\$ 317,956</u>	<u>\$15,890,186</u>	<u>\$ -</u>
	2010			
	<u>Fair Value Measurement at Reporting Date Using:</u>			
	<u>Total</u> <u>Fair Value</u>	Observable Inputs <u>(Level 1)</u>	Other Observable Inputs <u>(Level 2)</u>	Unobservable Inputs <u>(Level 3)</u>
Investments – mutual funds	\$15,071,248	\$ 246,176	\$14,825,072	\$ -
Assets whose use is limited - mutual funds	122,724	-	122,724	-
	<u>\$15,193,972</u>	<u>\$ 246,176</u>	<u>\$14,947,796</u>	<u>\$ -</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
 NOTES TO FINANCIAL STATEMENTS, Continued  
 for the years ended December 31, 2011 and 2010

3. Fair Value Measurements, Continued:

The Level 1 mutual fund investments as of December 31, 2011 and 2010 represent registered mutual funds that are actively traded on an open market. The Level 2 mutual fund investments and assets whose use is limited as of December 31, 2011 and 2010 represent pooled mutual fund investments managed by a third party. The net asset value (NAV) of the pooled investments is based on valuation techniques determined by the third party.

Included in investments are donated securities with a fair value of \$1,763,450 and \$1,770,620 as of December 31, 2011 and 2010, respectively.

4. Investment in Limited Partnership:

Summarized financial information for 588 Associates, LP for the year ended December 31, 2011 is as follows:

Balance Sheet (Accrual Basis)	
Total Assets	\$ <u>20,437,798</u>
Total Liabilities	148,676
Partnership Capital	<u>20,289,122</u> *
 Total Liabilities and Partnership Capital	 \$ <u>20,437,798</u>

\* ABC/USA's 34.65% partnership interest of \$7,032,479 and 35% membership interest of \$68,711 (the Company's 1% partnership interest of \$196,320) as of December 31, 2011 is recorded as "Investment in partnership" in the statement of financial position. Its shares of the partnership gain/(loss) for 2011 and 2010 were (\$71,859) and \$7,412, respectively, which is disclosed as "net change in value of investment in partnership" in the statement of activities. During 2011, ABC/USA contributed \$87,500 to the Partnership (35% of a \$250,000 contribution from all partners) to cover its operational expenses.

ABC/USA provides financial management services to the Partnership. During 2011, the fees collected for these services, including reimbursement of allocated personnel expenses, totaled \$277,628, which is included in the "Mission Center building operations" revenue and expense lines on the statement of activities.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
 NOTES TO FINANCIAL STATEMENTS, Continued  
 for the years ended December 31, 2011 and 2010

5. Property, Land and Equipment:

Property, land and equipment as of December 31, 2011 and 2010 consist of the following:

	2011	2010
Computer software and equipment	2,528,918	2,523,520
Office equipment	626,705	626,705
Automobiles	39,385	39,385
Subtotal	3,195,008	3,189,610
Accumulated depreciation	(3,002,451)	(2,943,787)
Subtotal property and equipment, net	192,557	245,823
 Land	 414,916	 414,916
Total property, land and equipment, net	\$ 607,473	\$ 660,739

Depreciation expense for the years ended December 31, 2011 and 2010 was \$58,664 and \$103,409, respectively.

6. Notes Receivable:

During 2008, ABC/USA 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 ABC/USA, ABFMS, ABHMS, and MMBB (collectively, the “lessors”) totaled \$464,970. ABC/USA contributed 15% of the principal totaling \$69,750.

The note bears 0% interest prior to October 1, 2009 and thereafter interest accrues at the prime rate. Beginning October 1, 2009 the annual interest rate was 5%. On November 3, 2010, the lessors agreed to allow ABHS to remit interest-only payments during 2011, deferring any principal payments due during that period. As of December 31, 2011, ABC/USA’s share of the principal balance due was \$42,607. The following is the schedule of future minimum principal payments as of December 31, 2011:

December 31,	
2012	\$ 14,811
2013	27,796
Total	\$ 42,607

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
 NOTES TO FINANCIAL STATEMENTS, Continued  
 for the years ended December 31, 2011 and 2010

6. Notes Receivable, continued:

During 2009, ABC/USA entered into loan agreements with ABFMS, ABHMS, and MMBB in conjunction with the Sale of the building. Beginning April 1, 2009 the annual interest rate for the notes was 7%. The notes due from ABFMS and MMBB are payable in monthly installments over 10 years. The note due from ABHMS is payable in monthly installments over 25 years. These notes are collateralized by each organization's interest in the Partnership. During 2011, ABFMS paid in full the remaining balance due of its note. As of December 31, 2011, the remaining principal balance due from ABHMS and MMBB was \$7,297,135.

The following is the schedule of future minimum principal payments as of December 31, 2011:

December 31,	
2012	\$ 498,616
2013	534,660
2014	573,311
2015	614,756
2016	659,197
2017 and thereafter	<u>4,416,595</u>
Total	<u>\$ 7,297,135</u>

7. Lease of American Baptist Freedom Center:

In July 1984, ABC/USA 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 1991, 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 and subsequent rental revenues were deferred and are amortized using the straight-line method over various lease terms of up to 50 years. Amortization of deferred lease revenue for each of the years ended December 31, 2011 and 2010 was \$96,476.

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, 2011 and 2010 was \$16,908. Accumulated amortization was \$428,909 and \$412,091 as of December 31, 2011 and 2010, respectively.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended December 31, 2011 and 2010

8. Retirement Plan:

Substantially all of ABC/USA 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. ABC/USA contributes 13 percent of each participant's annual compensation. Plan expenses for the years ended December 31, 2011 and 2010 were \$288,758 and \$262,429, 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.

9. Amounts Received on Behalf of and Remitted to Others:

Amounts received on behalf of and remitted to others during the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Amounts received through ABMS:		
ABC Offerings and Other Objectives	\$ 21,146,408	\$ 23,584,706
United Mission	10,852,839	11,225,797
Other campaigns	99,722	379,015
Gifts to other agencies	329,238	203,977
Total amounts received through ABMS	\$ 32,428,207	\$ 35,393,495
The amounts above received on behalf of others were distributed as follows:		
National Related Boards	\$ 12,252,010	\$ 12,228,259
Regions, States, and Baptist Related Activities	12,863,261	13,117,292
Other organizations	4,670,777	7,450,051
Shared Support Services to Related Boards	323,576	323,576
Uncommitted Fund Disbursements	108,528	112,289
Total amounts distributed to others	30,218,152	33,231,467
Amounts retained by American Baptist Churches in the U.S.A. in accordance with budget covenant provisions	2,210,055	2,162,028
Total amounts distributed and retained by ABC/USA	\$ 32,428,207	\$ 35,393,495



AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended December 31, 2011 and 2010

10. Endowments:

ABC/USA's endowment funds consist of approximately 20 individual funds established for a variety of purposes. The endowments consist of both donor-restricted endowment funds and funds designated by the General Board to function as endowments. As required by generally accepted accounting principles in the United States, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

ABC/USA is incorporated in the state of New York. In 2010, New York enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). ABC/USA 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, ABC/USA 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 ABC/USA. ABC/USA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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 ABC/USA to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2011 and 2010.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended December 31, 2011 and 2010

10. Endowments, continued:

Return Objectives and Risk Parameters

ABC/USA's endowment funds are invested in its investments with ABF. According to policy approved by the General Board, ABF assets 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.

Strategies Employed for Achieving Objectives:

To satisfy its long-term rate-of-return objectives, ABC/USA 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). ABC/USA 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

ABC/USA 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 was 5.0% for 2011 and 2010. Effective January 1, 2004, ABC/USA 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 ABC/USA to support the operations of the new department. ABWIM's percentage draw was 4.0% for 2011 and 2010. The maximum percentage allowable under terms of ABC/USA's Covenant Agreement with the Ministers & Missionaries Benefit Board (MMBB) is 8%. The expected draw in 2012 for ABCUSA is 5.0% and 4.0% for related partners and ABWIM, respectively.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended December 31, 2011 and 2010

10. Endowments, continued:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment Net Asset Composition by Type of Fund as of December 31, 2011:</b>				
Donor restricted endowment funds	\$ -	\$ 4,638,582	\$ 2,647,770	\$ 7,286,352
Board-designated endowment funds	<u>5,157,896</u>	<u>-</u>	<u>-</u>	<u>5,157,896</u>
Total funds	<u>\$ 5,157,896</u>	<u>\$ 4,638,582</u>	<u>\$ 2,647,770</u>	<u>\$ 12,444,248</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Changes in Endowment Net Assets for the Year Ended December 31, 2011:</b>				
Endowment net assets, December 31, 2010	\$ 5,703,046	\$ 4,836,604	\$ 2,718,692	\$ 13,258,342
Investment return:				
Investment income	55,149	247,878	114,435	417,462
Net depreciation (realized and unrealized)	<u>(272,196)</u>	<u>(203,756)</u>	<u>(100,357)</u>	<u>(576,309)</u>
Total investment return	<u>(217,047)</u>	<u>44,122</u>	<u>14,078</u>	<u>(158,847)</u>
Contributions	-	8,500	-	8,500
Appropriation of assets for expenditure in accordance with the spending policy	<u>(328,103)</u>	<u>(250,644)</u>	<u>(85,000)</u>	<u>(663,747)</u>
Endowment net assets, December 31, 2011	<u>\$ 5,157,896</u>	<u>\$ 4,638,582</u>	<u>\$ 2,647,770</u>	<u>\$ 12,444,248</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment Net Asset Composition by Type of Fund as of December 31, 2010:</b>				
Donor restricted endowment funds	\$ -	\$ 4,836,604	\$ 2,718,692	\$ 7,555,296
Board-designated endowment funds	<u>5,703,046</u>	<u>-</u>	<u>-</u>	<u>5,703,046</u>
Total funds	<u>\$ 5,703,046</u>	<u>\$ 4,836,604</u>	<u>\$ 2,718,692</u>	<u>\$ 13,258,342</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS, Continued  
for the years ended December 31, 2011 and 2010

10. Endowments, continued:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Changes in Endowment Net Assets for the Year Ended December 31, 2010:</b>				
Endowment net assets, December 31, 2009	\$ 4,484,696	\$ 4,511,569	\$ 2,590,917	\$ 11,587,182
Investment return:				
Investment income	53,784	207,840	105,687	367,311
Net appreciation (realized and unrealized)	413,045	333,505	93,324	839,874
Total investment return	<u>466,829</u>	<u>541,345</u>	<u>199,011</u>	<u>1,207,185</u>
Contributions	853,269	3,000	-	856,269
Appropriation of assets for expenditure in accordance with the spending policy	<u>(101,748)</u>	<u>(219,310)</u>	<u>(71,236)</u>	<u>(392,294)</u>
Endowment net assets, December 31, 2010	<u>\$ 5,703,046</u>	<u>\$ 4,836,604</u>	<u>\$ 2,718,692</u>	<u>\$ 13,258,342</u>

11. Functional Classification of Expenses:

ABC/USA 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:

	<u>2011</u>	<u>2010</u>
Programs	\$ 5,082,540	\$ 4,046,758
Management and General	1,171,321	1,057,186
Fundraising	<u>259,458</u>	<u>249,901</u>
Total	<u>\$ 6,513,319</u>	<u>\$ 5,353,845</u>

12. Tax Status:

ABC/USA is exempt from federal income tax as a religious organization under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). ABC/USA obtained its latest determination letter on February 4, 2010, and it has not received any subsequent notice from the Internal Revenue Service that such tax-exempt status has been challenged or changed.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
NOTES TO FINANCIAL STATEMENTS, Concluded  
for the years ended December 31, 2011 and 2010

12. Tax Status, continued:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires ABC/USA to report information regarding its exposure to various tax positions taken by ABC/USA. ABC/USA has evaluated whether any tax positions have met the recognition threshold and have measured ABC/USA's exposure to the tax positions. Management believes that ABC/USA has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Any interest or penalties assessed to ABC/USA are recorded in general and administrative expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

13. Subsequent Events:

Management has evaluated subsequent events through June 6, 2012, the date which the financial statements were available to be issued. There were no material subsequent events required to be disclosed.

## **SUPPLEMENTAL INFORMATION**

**AMERICAN BAPTIST CHURCHES IN THE U.S.A.**  
Supplement to the Statement of Financial Position  
December 31, 2011

**Assets**

**Cash and cash equivalents:** Represents cash on hand as of December 31, 2011.

**Certificates of deposit:** This represents certificates of deposit held in high quality financial institutions with a maximum maturity of 36 months or less as of December 31, 2011.

**Accounts Receivable from Baptist related organizations, net:** Represents primarily mission support contributions from local churches. Also includes fees that are owed to ABC/USA from National Boards; fees for services of departments within the Office of the General Secretary (OGS), such as Human Resources; and pass-through fees for temporary personnel. Accordingly, these amounts are shown net of allowances reserved for bad debt.

**Prepaid expenses and other current assets:** Includes pre-paid insurance, and postage, as well as supplies and cafeteria inventories.

**Notes receivable:** Represents the balances of notes provided to the Board of National Ministries (due on March 31, 2034) and Ministries and Missionaries Benefits Board (due on March 31, 2019) to assist in the sale of the Mission Center to 588 Associates, LP. Also represents the balance of the note provided to American Baptist Historical Society (due on August 31, 2013) to assist in a timely relocation to the Mercer Campus in Atlanta.

**Investments, at fair value:** Represents the investment of board designated endowment funds and permanent endowment funds. These investments are carried at fair value. The largest portion of the investments is the Robert Roblee Memorial Fund, the income of which has traditionally funded mission projects overseas through the Board of International Ministries.

**Investment in partnership:** Represents the investment in 588 Associates, L.P. (the "Partnership"), a limited partnership formed for the purpose of acquiring and managing the Mission Center property, and investment in 588 Associates, L.L.C. (the "Company"), a limited liability company formed for the purpose of managing and serving as General Partner of the Partnership. ABC/USA owns a 34.65% partnership interest in the Partnership and a 35% membership interest in the Company, which owns a 1% partnership interest.

**Property, land and equipment, net of accumulated depreciation:** Represents a number of capitalized assets, such as office equipment and the Mission Receipt and Disbursement System software. All of these assets are carried at cost.

**AMERICAN BAPTIST CHURCHES IN THE U.S.A.**  
Supplement to the Statement of Financial Position, Continued  
December 31, 2011

**Assets, continued**

**Lease acquisition costs, net of accumulated amortization:** These costs, paid in 1984 at the time negotiations were concluded with Prudential Insurance Company of America for the lease of the land for Freedom Business Center, which is adjacent to the grounds of the Mission Center, represent net amounts paid and being amortized over the life of the lease.

**Assets whose use is limited:** Represents The Annuity Supplement (TAS) account owned by ABC/USA, which is being held for staff supplemental retirement benefits upon Board Approval.

**Liabilities**

**Accounts payable and accrued liabilities:** Represents current year expenses that were not paid at year-end, clearing accounts and the accrued vacation and salaries of employees at year-end.

**Funds of others:** ABC/USA collects and distributes funds for the benefit of others. ABC/USA 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 donations, contributions and gifts which are disbursed to beneficiaries on a monthly basis.

**Funds held for others – Mission Support:** Represents the remaining American Baptist Mission Support funds which are not distributed during the year, and are held to be distributed at a later date.

**Deferred lease revenue:** Represents the amount remaining of the original payment to ABC/USA of more than \$4 million for the land which Freedom Business Center currently occupies. Because the payment was made in one lump sum, it represents a deferred liability and is recognized as revenue annually, prorated over the life of the lease agreement.



**AMERICAN BAPTIST CHURCHES IN THE U.S.A.**  
Supplement to the Statement of Financial Position, Continued  
December 31, 2011

**Net Assets**

**Unrestricted, board designated:** Includes reserves such as the Supplemental Retirement Benefit (TAS) Reserve, Biennial Reserve, the reserve for Representative Process, and the OGS Operating Reserve. In addition, the net assets represent the reserve for both anticipated and unanticipated equipment and major repairs on the building. Although intended for specific use, these are not binding on the organization.

**Unrestricted, board undesignated:** These may be used for any purpose designated by management without restriction.

**Temporarily restricted:** Represents the income and appreciation/depreciation on funds 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 for restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions. The “Robert Roblee Memorial Fund” income is included in temporarily restricted net assets.

**Permanently restricted:** Represents endowment gifts explicitly restricted by the donor to be held in perpetuity. Income is included in permanently restricted net assets and reclassified to unrestricted net assets when used in accordance with donor’s stipulations. In addition to fifteen small estates, the “Women in Ministry/Ministers Council” endowment fund transferred from Board of Educational Ministries also comprises this balance.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
Supplemental Schedules of Activities of Unrestricted Net Assets  
(with segregation of Office of the General Secretary (OGS) operations)  
for the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues, gains, and other support:		
Fees and other operating revenue	\$ 2,191,587	\$ 1,795,539
United Mission	1,055,021	1,075,039
Other investment income	379,410	442,530
Investment income on estate gifts	<u>55,149</u>	<u>53,784</u>
Total OGS operating revenue	3,681,167	3,366,892
Mission Center building operations	901,621	926,348
World Mission support	648,644	627,017
Net realized and unrealized gains/(losses) on investments	(326,050)	494,766
Representative process	391,500	400,665
Net assets released from restrictions and used for operations	335,644	290,546
Lease revenue	96,476	96,476
Other reserve income	54,633	8,884
Strong in the Lord conference	14,993	200
Biennial	470,799	-
Net change in value of partnership	<u>(71,859)</u>	<u>7,412</u>
Total revenue, gains, and other support	<u>6,197,568</u>	<u>6,219,206</u>
Expenses:		
Salaries and benefits	1,853,053	1,882,294
Other	588,808	363,771
Travel	246,939	236,402
Rent	84,424	98,037
Depreciation	48,357	91,428
Ecumenical relations	80,300	82,500
Professional fees	92,008	76,402
Insurance	23,408	23,120
Computer center and central service charges	30,177	22,952
Staff development	13,980	10,999
Telephone	11,727	9,926
Postage	11,520	9,844
Printing/literature	<u>5,367</u>	<u>2,158</u>
Total OGS operating expenses	<u>3,090,068</u>	<u>2,909,833</u>
Mission Center building operations	904,421	923,883
Mission resource development	648,644	624,753
Biennial	527,650	-
Representative process	479,375	445,897
Distribution to others	387,738	331,629
Denominational emphasis	227,039	-
Orientation to American Baptist Life	87,839	89,118
Strong in the Lord conference	10,524	28,732
Net transfers from reserves	<u>(121,619)</u>	<u>(134,161)</u>
Total expenses	<u>6,241,679</u>	<u>5,219,684</u>
(Decrease)/increase in unrestricted net assets	<u>\$ (44,111)</u>	<u>\$ 999,522</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
 Supplemental Schedule of Activities for  
 Mission Center Building Operations  
 for the year ended December 31, 2011

	Building Operations	Invested in Plant	Total
<b>Revenues:</b>			
Traffic operations	\$ 574,172	\$ -	\$ 574,172
Financial management services to Partnership	-	277,628	277,628
Lease income amortization of deferred lease revenue	-	96,476	96,476
Telephone leasing income	49,820	-	49,820
Total revenues	<u>623,992</u>	<u>374,104</u>	<u>998,096</u>
<b>Expenses:</b>			
Traffic operations	571,635	-	571,635
Salaries and benefits	-	277,628	277,628
Telephone	31,959	-	31,959
Other	-	16,908	16,908
Depreciation	6,291	-	6,291
Total expenses	<u>609,885</u>	<u>294,536</u>	<u>904,421</u>
Total revenues less expenses	<u>\$ 14,107</u>	<u>\$ 79,568</u>	<u>\$ 93,675</u>

AMERICAN BAPTIST CHURCHES IN THE U.S.A.  
Supplemental Schedule of Net Assets  
for the year ended December 31, 2011

	<u>General</u>	<u>Endowment Funds</u>	<u>Total</u>
<b>Unrestricted net assets</b>			
Board designated:	\$ 15,534,002	\$ 4,040,719	\$ 19,574,721
OGS Reserves:			
OGS Operating Reserve	1,420,888	-	1,420,888
Supplemental Retirement Benefit (TAS)	272,722	-	272,722
Subtotal Board designated OGS Reserves	<u>1,693,610</u>	-	<u>1,693,610</u>
Total Board designated	<u>17,227,612</u>	<u>4,040,719</u>	<u>21,268,331</u>
Board undesignated:	1,796,474	-	1,796,474
Estates	-	1,117,177	1,117,177
OGS Management designated reserves:			
Denominational Emphasis	149,998	-	149,998
World Mission Support (WMS)	303,116	-	303,116
Subtotal Management designated OGS Reserves	<u>453,114</u>	-	<u>453,114</u>
Total Board undesignated	<u>2,249,588</u>	<u>1,117,177</u>	<u>3,366,765</u>
Total unrestricted net assets	19,477,200	5,157,896	24,635,096
<b>Temporarily restricted net assets</b>			
Roblee Fund and other small estates	-	4,638,582	4,638,582
<b>Permanently restricted net assets</b>			
Women in Ministry and other small estates	<u>-</u>	<u>2,647,770</u>	<u>2,647,770</u>
<b>Total net assets</b>	<u>\$ 19,477,200</u>	<u>\$ 12,444,248</u>	<u>\$ 31,921,448</u>