The North Carolina Baptist Foundation, Inc.

Financial Statements

December 31, 2022

FOARD

EST. 1964

The North Carolina Baptist Foundation, Inc.
Table of Contents
December 31, 2022

Page

Independent Auditors' Report 1-2

Audited Financial Statements:

Consolidated Statement of Financial Position 3

Consolidated Statement of Activities 4

Consolidated Statement of Cash Flows 5

Notes to Consolidated Financial Statements 6-19

FOARD
EST. 1964

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North Carolina Baptist Foundation
Cary, North Carolina

Opinion

We have audited the accompanying consolidated financial statements of North Carolina Baptist Foundation (the "Foundation" - a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and cash flows for the year then ended, and the related consolidated notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Baptist Foundation as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of North Carolina Baptist Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about North Carolina Baptist Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of North Carolina Baptist Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about North Carolina Baptist Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 3, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Foard & Company, P.A.

March 4, 2023

The North Carolina Baptist Foundation, Inc.

Consolidated Statement of Financial Position

December 31, 2022, with prior year comparative totals

	December 31, 2022			Prior Year
	NC Baptist Foundation	NC Baptist Financial Services	Totals	Comparative Totals
ASSETS				
Operating assets:				
Cash and cash equivalents	$ 773,271	$ 6,427,608	$ 7,200,879	$ 10,965,171
Accounts receivable - sales tax and other**	59,552	-	46,864	39,024
Interest receivable	-	173,408	173,408	184,960
Investments, at fair value	11,732,775	32,903,430	44,636,205	37,897,279
Prepaid expenses	534	-	534	697
Notes receivable, net of an allowance for doubtful accounts	9,380	43,277,775	43,287,155	44,158,317
Property not used in operations, net of depreciation	281,500	-	281,500	293,500
Fixed assets used in operations, net of depreciation	37,138	4,058	41,196	78,000
Software, net of amortization	-	65,068	65,068	-
Offering costs, net	-	8,041	8,041	13,396
Total	12,894,150	82,859,388	95,740,850	93,630,344
Assets held in trust and for others:				
Cash and cash equivalents	3,445,624	-	3,445,624	5,751,238
Investments, at fair value	146,524,709	-	146,524,709	169,697,149
Notes receivable, net of allowance for doubtful accounts	1,012,754	-	1,012,754	1,892,525
Property not used in operations, net of depreciation	1,263,560	-	1,263,560	1,182,420
Total	152,246,647	-	152,246,647	178,523,332
TOTAL ASSETS	***$ 165,140,797***	***$ 82,859,388***	***$ 247,987,497***	***$ 272,153,676***
LIABILITIES AND NET ASSETS				
Liabilities:				
Operating liabilities:				
Accrued expenses**	$ 175,752	$ 64,946	$ 228,010	$ 141,400
Accrued post-retirement benefits	755,867	-	755,867	840,498
Certificates of participation	-	82,491,987	82,491,987	78,402,632
Obligations to annuitants	363,331	-	363,331	515,584
Total	1,294,950	82,556,933	83,839,195	79,900,114
Funds held in trust and for others:				
Obligations to annuitants	8,106,648	-	8,106,648	10,296,108
Funds held for others	144,139,999	-	144,139,999	168,227,224
Total	152,246,647	-	152,246,647	178,523,332
Total Liabilities	***153,541,597***	***82,556,933***	***236,085,842***	***258,423,446***
Net Assets:				
Without donor restrictions:				
Undesignated	2,475,655	302,455	2,778,110	3,032,493
Designated	100,000	-	100,000	100,000
Total without donor restrictions	2,575,655	302,455	2,878,110	3,132,493
With donor restrictions	9,023,545	-	9,023,545	10,597,737
Total Net Assets	11,599,200	302,455	11,901,655	13,730,230
TOTAL LIABILITIES AND NET ASSETS	***$ 165,140,797***	***$ 82,859,388***	***$ 247,987,497***	***$ 272,153,676***

** Interfund assets and liabilities have been eliminated in the total column

The North Carolina Baptist Foundation, Inc.
Consolidated Statement of Activities
Year Ended December 31, 2022, with prior year comparative totals

	Year Ended December 31, 2022							
	NC Baptist Foundation Without Donor Restrictions	NC Baptist Foundation With Donor Restrictions	NC Baptist Foundation Total Net Assets Classes	NC Baptist Financial Services	Consolidated Totals	Liabilities	Memorandum Totals Only	Prior Year Comparative Totals
REVENUES, GAINS AND OTHER SUPPORT								
Contributions**	$ 281,308	$ 510,655	$ 791,963	$ 469	$ 792,432	$ 6,826,223	$ 7,618,655	$ 218,102
Administrative fee income	1,506,079	-	1,506,079	-	1,506,079	-	1,506,079	1,686,803
Interest and dividend income	81,845	188,003	269,848	3,039,917	3,309,765	3,575,324	6,885,089	2,655,798
Net realized gains (losses)	11,178	141,652	152,830	-	152,830	2,152,873	2,305,703	619,111
Net unrealized gains (losses)	(601,327)	(2,075,068)	(2,676,395)	(71,225)	(2,747,620)	(31,142,577)	(33,890,197)	924,261
Change in value of split-interest agreements	33,923	126,250	160,173	-	160,173	293,800	453,973	130,664
Origination fees	-	-	-	48,605	48,605	-	48,605	16,665
Other	86,118	190	86,308	17,358	103,666	35,126	138,792	205,571
Reclassification of net asset classes (net)	-	-	-	-	-	-	-	37,861
Total	1,399,124	(1,108,318)	290,806	3,035,124	3,325,930	(18,259,231)	(14,933,301)	6,494,836
Net assets released from restrictions	465,874	(465,874)	-	-	-	-	-	-
TOTAL	***$ 1,864,998***	***$ (1,574,192)***	***$ 290,806***	***$ 3,035,124***	***3,325,930***	***$ (18,259,231)***	***$ (14,933,301)***	***$ 6,494,836***
EXPENSES								
Program Services:								
Baptist institutions and causes	$ 501,347	$ -	$ 501,347	$ -	$ 501,347	$ 5,186,491	$ 5,687,838	$ 359,788
Distributions to annuitants	112,887	-	112,887	-	112,887	1,341,617	1,454,504	112,620
Supporting Services:								
Fiduciary fees	164,910	-	164,910	-	164,910	1,374,320	1,539,230	131,716
Personnel	1,232,544	-	1,232,544	727,347	1,959,891	-	1,959,891	1,851,638
Operations**	331,750	-	331,750	174,716	506,466	115,026	621,492	534,651
Interest expense - paid to investors	-	-	-	1,922,233	1,922,233	-	1,922,233	1,865,644
Loan loss reserve and bad debt	-	-	-	(13,229)	(13,229)	-	(13,229)	(11,443)
TOTAL	***$ 2,343,438***	***$ -***	***$ 2,343,438***	***$ 2,811,067***	***$ 5,154,505***	***$ 8,017,454***	***$ 13,171,959***	***$ 4,844,614***
CHANGE IN NET ASSETS	***(478,440)***	***(1,574,192)***	***(2,052,632)***	***224,057***	***(1,828,575)***	***(26,276,685)***	***(28,105,260)***	***1,650,222***
NET ASSETS, BEGINNING	***3,054,095***	***10,597,737***	***13,651,832***	***78,398***	***13,730,230***			
NET ASSETS, ENDING	***$ 2,575,655***	***$ 9,023,545***	***$ 11,599,200***	***$ 302,455***	***$ 11,901,655***			

** Interfund revenue and expenses have been eliminated in the total column.

The North Carolina Baptist Foundation, Inc.

Consolidated Statement of Cash Flows

Year Ended December 31, 2022, with prior year comparative totals

	Year Ended December 31, 2022			Prior Year
	NC Baptist Foundation	NC Baptist Financial Services	Totals	Comparative Totals
OPERATING ACTIVITIES				
Change in net assets	$ (2,052,632)	$ 224,057	$ (1,828,575)	$ 1,650,222
Adjustments to reconcile changes in net assets to cash flows from operating activities:				
Depreciation and amortization expense	29,288	19,028	48,316	51,259
Loan loss reserve	-	(13,229)	(13,229)	(11,443)
Non-cash contributions (securities)	(1,000)	-	(1,000)	-
Net realized (gain) loss on sale of investments	(152,830)	-	(152,830)	(619,111)
Net unrealized (gain) loss on investments	2,676,395	71,225	2,747,620	(465,581)
Net gain on sale of fixed assets used in operations	-	-	-	(10,933)
Change in value of split-interest agreements	(160,173)	-	(160,173)	(130,664)
Changes in operating assets and liabilities:				
Accounts and other receivables	(20,528)	-	(20,528)	112,749
Prepaid assets	163	-	163	1,683
Interest receivable	-	11,552	11,552	8,759
Accrued expenses	79,133	15,492	94,625	(96,292)
Accrued post-retirement benefits	(84,631)	-	(84,631)	(49,130)
Obligations to annuitants	7,920	-	7,920	2
Contributions restricted for long-term investment	(510,655)	-	(510,655)	(20,114)
Cash Flows from Operating Activities	***(189,550)***	***328,125***	***138,575***	***421,406***
INVESTING ACTIVITIES				
Net purchases of fixed assets and software	-	(70,952)	(70,952)	(44,208)
Purchases of investments	(944,687)	(22,357,085)	(23,301,772)	(40,990,526)
Proceeds from sale of investments	1,054,448	12,918,007	13,972,455	29,034,224
Notes receivable issued	-	(2,901,804)	(2,901,804)	(8,082,177)
Principal repayment of notes receivable	15,451	3,783,745	3,799,196	8,856,214
Cash Flows from Investing Activities	***125,212***	***(8,628,089)***	***(8,502,877)***	***(11,226,473)***
FINANCING ACTIVITIES				
Proceeds from contributions restricted for long-term investment	510,655	-	510,655	20,114
Proceeds from certificates of participation	-	15,737,675	15,737,675	15,200,597
Redemptions of certificates of participation	-	(11,648,320)	(11,648,320)	(3,311,972)
Cash Flows from Financing Activities	***510,655***	***4,089,355***	***4,600,010***	***11,908,739***
NET CHANGE IN CASH	***446,317***	***(4,210,609)***	***(3,764,292)***	***1,103,672***
CASH AND CASH EQUIVALENTS, BEGINNING	***326,954***	***10,638,217***	***10,965,171***	***9,861,499***
CASH AND CASH EQUIVALENTS, ENDING	***$ 773,271***	***$ 6,427,608***	***$ 7,200,879***	***$ 10,965,171***

NOTE 1 – NATURE OF ORGANIZATION

North Carolina Baptist Foundation
The North Carolina Baptist Foundation (the "Foundation") was chartered in 1920. The Foundation promotes the making of gifts and bequests which, in turn, are invested to provide a continuous flow of income for North Carolina and Southern Baptist causes. To provide a level of diversity for donors, the Foundation maintains funds in managed, pooled accounts. Certain trusts and agency accounts may buy or sell units in these funds based on the fair value of the related fund on specified valuation dates.

North Carolina Baptist Financial Services
The North Carolina Baptist Financial Services (the "Organization") was formed on April 17, 2009, under the laws of North Carolina as a charitable and religious organization supporting the Foundation and its mission to promote the Baptist denomination in North Carolina. The Organization is a wholly-owned subsidiary of the Foundation. Its primary focus is to engage in lending activities providing loans to Baptist churches and other Baptist entities for the construction and expansion of facilities. The Organization has issued unsecured debt securities (certificates of participation) to fund these activities.

The Organization's primary sources of revenue are interest income on loans receivable and investment income. The Organization is generally exempt from income tax under section 501(c)(3) of the Internal Revenue Code (the Code) and comparable state law and is classified as a publicly supported organization, which is not a private foundation, under section 509(a)(1) of the Code.

Consolidation
The accompanying financial statements have been prepared on the accrual basis and include the activities and net assets of the North Carolina Baptist Financial Services, the Foundation's wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated.

Income Taxes
The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statues, and accordingly, no income taxes have been provided for the Foundation in the accompanying financial statements.

Giving Options
The Foundation provides various vehicles to facilitate charitable giving. A summary of the most common trust arrangements are as follows:

Split-Interest Agreements
As of December 31, 2022, respectively, $14,386,194 of trust assets were held under split-interest agreements. This is a form of contribution whereby the Foundation shares benefits with other beneficiaries designated by the donor. Charitable Remainder Annuity Trusts (CRATs) and Charitable Remainder Unitrusts (CRUTs) are types of split-interest agreements most often used by the Foundation's donors. The donor specifies distributions to be made to designated beneficiaries over the trust's term, which is typically the life of the donor and/or beneficiaries. Distributions may be for a specified dollar amount (CRAT) or a specified percentage of the trust's fair value as determined annually (CRUT). In either case, obligations to beneficiaries are limited to trust assets. Upon termination of the trust, any remaining assets revert to the Foundation for its unrestricted or restricted use or for other charities.

The Foundation recognizes support under split-interest agreements when the agreements become irrevocable or when the assets are distributed to the Foundation for charitable causes, whichever occurs first. The assets held in trust are recorded at their estimated fair value when received, with the obligation to the donor or their beneficiary recorded at the estimated fair value of the future annuities payable. The fair value of the estimated future payments is calculated using applicable distribution rates, a discount rate adjusted to reflect the lower market risk of obligations that are largely limited to segregated trust assets and applicable mortality tables. The amount of the contributions is the difference between these amounts and is classified as either with or without donor restrictions support. Adjustments to the liability to reflect amortization of the discount, remeasurement of the fair value of the obligation, and changes in actuarial assumptions, as well as the close-out of the liability upon the death of the donor (or beneficiary), are recognized as changes in the value of split-interest agreements in either the temporarily or permanently restricted net asset class. The fair value of the obligations as of December 31, 2022, was calculated using a discount rate of 5.2%.

Assets held under revocable split-interest agreements are valued at fair value when received, with an obligation recorded for an equal amount. Income earned on these assets, distributions, and changes in carrying value of the assets are recognized as adjustments to the assets and related obligations.

Endowments
An endowment is an arrangement where the Foundation holds funds in perpetuity either for the benefit of the Organization or for other charities. During their lifetime(s), donors are permitted to rename the charitable beneficiaries as long as 50% of the earnings provide support to Baptist ministries. The donation results in an immediate tax deduction to the donor.

Agency Funds
The Foundation holds, invests, and manages certain monies for the Baptist State Convention of North Carolina (BSC) and various other Baptist institutions and individuals. The invested assets are valued at fair value, with an obligation recorded in an equal amount. Accounts administered under a fund management agreement for these institutions and individuals have the right to withdraw both the principal and income at their discretion. Other accounts that are administered by the Foundation as the permanent trustee will remain with the Foundation in perpetuity. Income on these funds is distributed in accordance with the governing document. Because of the custodial nature of these funds, the activity from such is not included in the Foundation's change in net assets. All changes in agency funds are affected by adjusting the assets and related liabilities.

Life Estates
Under a life estate arrangement, the donor retains rights to the use of property, rentals therefrom, tax responsibilities, and other benefits/obligations of ownership. If irrevocable, the donation results in an immediate tax deduction to the donor. Upon the donor’s death, the property must be used or liquidated and the proceeds used as specified by the donor.

Insurance Trusts
Donors may take out life insurance policies from which the Foundation will receive a portion of the proceeds upon the death of the insured. Premiums are primarily paid by the Foundation, with funds provided by the donor. Life insurance trusts hold no other assets and are revocable during the insured individual's lifetime. The cash value of life insurance policies as of December 31, 2022, was $839,032.

Unfunded Agreements
Numerous individuals have expressed an intention to give a remainder interest in their estate to the Foundation. Because these agreements are generally revocable during the donor's lifetime, the Foundation recognizes such contributions only after the death of the donor and after a court's ruling as to the validity of the Will.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The Foundation uses the accrual basis of accounting; therefore, revenues are recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to U.S. generally accepted accounting principles (GAAP). Under GAAP the Foundation is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – are those currently available for use in the day-to-day operations of the Foundation and those resources invested in property and equipment. Designated net assets represent amounts designated by the Board of Directors for purposes other than operations.

Net Assets With Donor Restrictions – are comprised of amounts that may be temporary in nature, which are subject to donor-imposed stipulations that may or will be met either by actions of the Foundation or the passage of time, and net assets that are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. When donor restrictions expire, that is, when the assets are spent for the stipulated purpose or the restricted time passes, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Even though donor restrictions are sometimes met in the same reporting period as the contributions, the contributions along with any investment income are reported as restricted support for the period. Net assets to be maintained in perpetuity consist of contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Foundation's actions. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes in accordance with the Foundation's spending rule.

Cash and Cash Equivalents
The Foundation considers all highly liquid investments, other than those held in common investment funds, which totaled $8,123,718 as of December 31, 2022, having an initial maturity of three months or less, to be cash equivalents for purposes of the accompanying financial statements.

Accounts Receivable
Accounts receivable consist of sales tax paid that will be refunded and other miscellaneous operating amounts. All receivables are presented at net realizable value and are expected to be collected in the subsequent fiscal year.

Investments
Investments are carried at fair value. Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Real estate is carried at fair market value at the time it was donated. Gains and losses, both realized and unrealized, are reported in the statements of activities and are determined based on purchased cost or, for securities contributed by donors, based on fair market value on the date received. Investment income, including realized and unrealized gains and losses on investments, is allocated to common investment funds using the average balance in each fund during the year. Funds held by the Foundation earn investment income based upon earnings of the specific investments held for each fund. Investments are held and managed by outside fiscal agents. These investments are pooled investments and are distributed among the Foundation's funds using the "market value" method of valuing interest in an investment portfolio. Under this method, all market interest and dividend income, gains and losses from the sales of investments, and fiscal agent commissions are distributed to the members of the pool on the basis of shares owned.

The Foundation has applied the provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2009-12"), to certain investments in funds that do not have readily determinable fair values, including hedge funds and other funds. This guidance allows a practical expedient method to estimate the fair value of investments in investment companies for which the investment does not have readily determinable fair values using net asset value per share or its equivalent.

Notes Receivable
The Foundation provides loans for various purposes in accordance with trust terms and provisions. Notes receivable balances for student loans are unsecured. As of December 31, 2022, the Foundation had recorded a reserve of $377,906. Other notes receivable balances are secured by the property of the borrowers. As of December 31, 2022, the Foundation did not reserve any balance for the other notes receivable. Management has determined that an allowance for doubtful accounts is necessary based on a review of individual accounts, historical experience, and current economic conditions.

The Organization's Church notes receivable are stated at the principal amount outstanding net of a loan loss reserve. As of December 31, 2022, the loan loss reserve was $659,053. Interest is computed daily on the amount outstanding. All church notes receivable related to loans made to Baptist churches in the State of North Carolina. The Organization performs ongoing credit evaluations of its customers' financial condition and typically requires a first or second mortgage as collateral on each loan receivable. The Organization's policy was to maintain approximately 1.5% of all outstanding church loans receivable as a loan loss reserve. For any impaired or potentially impaired loans, the Organization reserves the full value of the potential impairment in the loan loss reserve. There were no such loans as of December 31, 2022.

Property Not Used in Operations
The Foundation accepts non-cash gifts from its donors. It is the Foundation's policy to liquidate these non-cash gifts, with the proceeds transferred to one of its common investment funds. Depreciation is recorded only in connection with any buildings held in excess of five years.

Fixed Assets
Fixed assets, if purchased, are stated at cost. Contributed fixed assets are recorded at fair value at the date of donation. Other contributions of fixed assets are recorded as unrestricted support in the absence of donor stipulations regarding how long the contributed assets must be used. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets. Purchases of less than $2,500 are expensed when incurred.

Software
Items capitalized as software are recorded at cost or, if donated, at fair market value on the date of the gift. Purchases and donations of equipment in excess of $2,500 are capitalized if the expected useful life exceeds one year. Amortization is calculated on a straight-line basis over the expected life of fifteen years.

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 and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Post-Retirement Benefits
The Foundation provides post-retirement benefits, including life and medical insurance coverage, for eligible employees who retire or become disabled from immediate employment with the Foundation. Eligible employees hired prior to January 1, 2006, must be at least 55 years of age and have completed at least ten years of service with the Foundation at the date of retirement or disability. Those employed January 1, 2006, or later must be at least 65 years of age and have completed at least fifteen years of service with the Foundation at the date of retirement or disability. This policy is subject to change at the discretion of the Foundation's Board of Directors. The Foundation recognizes an accrued obligation based on the present value of the estimated future payments for post-retirement benefits. Future payments are estimated using average historical trends, projected premium increases, and applicable mortality tables.

NOTE 3 – INVESTMENTS

Investment Funds
The majority of investments are held in the following common investment funds held by Graystone Consulting:

The Growth Fund is structured for long-term growth of principal with minimal income; the preferred asset mix is 80% equities and 20% fixed income. This fund is typically used by the Foundation for permanent endowment funds.

The Balanced Fund is invested for long-term growth of principal with emphasis on current income; its preferred asset mix is an equal distribution of equities and fixed income. This fund is typically used by the Foundation for trusts that require a fixed payment.

The Income Fund places emphasis on current income with minimal emphasis on long-term growth of principal; its asset mix consists of 20% equities and 80% fixed income. This fund is typically used by the Foundation for net income trusts.

The Fixed Income Fund is invested for maximum income and minimal principal fluctuation; assets are invested in fixed income securities and cash equivalents. This fund is typically used by the Foundation for fixed income accounts that are revocable.

Balance at Year-End
Investments consist of the following as of December 31:

	Foundation	Organization	Consolidated
Growth Fund	$ 111,075,315	$ -	$ 111,075,315
Balanced Fund	37,022,607	-	37,022,607
Income Fund	4,779,766	-	4,779,766
Fixed Income Fund	3,555,763	-	3,555,763
Multi-strategy Fixed Fund	62,329	-	62,329
Balanced Fund – Traditional	17,848	-	17,848
Domestic Equity	852,583	-	852,583
Tactical Composite	447,495	-	447,495
International	136,250	-	136,250
Karpus	40,832	-	40,832
Stonebridge	34,359	-	34,359
Weaver C. Barksdale	39,234	-	39,234
Certificates	-	32,903,430	32,903,430
Common Stock	187,353	-	187,353
Crossmark Domestic	5,750	-	5,750
Total Investments, at fair value	***$ 158,257,484***	***$ 32,903,430***	***$ 191,160,914***

Investments of the Organization generally consist of marketable securities and certificates. Investments in marketable securities are recorded at fair value based on market quotations. Certificates are carried at costs which approximates fair value. Investments at December 31, 2022, consist of certificates totaling $32,903,430. Changes in the market value of securities are reflected as unrealized investment gains or losses in the accompanying statement of cash flows. Investment purchases and sales of securities are reflected on a trade date basis. Interest and dividend income is recorded as earned or declared on an accrual basis.

The Organization has multiple certificates with varying maturity dates occurring in 2023 – 2025 and bears interest at rates between 1.89 and 2.76 percent.

NOTE 4 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a fair value hierarchy which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable and have the lowest priority.

The following is a description of the valuation techniques used by the Foundation to measure different financial instruments at fair value and the level within the fair value hierarchy in which the financial instrument is categorized.

The fair values of equity and fixed income securities are based on quoted market prices and are, therefore, classified as Level 1.

The fair value of the investments in investment companies is based on the net asset values provided by the investment funds. Substantially all of the funds' investments are in portfolio funds. Each fund's investment manager uses a market approach to value the underlying hedge funds. In accordance with ASU 2009-12, the Foundation categorized its investments in investment funds as a Level 2 fair value measurement if the Foundation had the ability to redeem its investment on December 31, 2022, or the near term, which is defined as 90 days or less from December 31, 2022. All other investment funds are categorized as Level 3.

The Foundation's consolidated financial instruments are reported at fair value in the accompanying statements of financial position as of December 31, 2022, as follows:

	Fair Value	Level 1	Level 2	Level 3
Growth Fund	$ 111,075,315	$ 99,822,729	$ -	$ 11,252,586
Balanced Fund	37,022,607	34,759,742	-	2,262,865
Income Fund	4,779,766	4,561,379	-	218,387
Fixed Fund	3,555,763	3,555,763	-	-
Multi-strategy Fixed Fund	62,329	62,329	-	-
Balanced Fund – Traditional	17,848	17,848	-	-
Domestic Equity	852,583	852,583	-	-
Tactical Composite	447,495	326,457	-	121,038
International	136,250	136,250	-	-
Karpus	40,832	40,832	-	-
Stonebridge	34,359	34,359	-	-
Weaver C. Barksdale	39,234	39,234	-	-
Certificates	32,903,430	-	32,903,430	-
Common Stock	187,353	187,353	-	-
Crossmark Domestic	5,750	5,750	-	-
Notes Receivable (net)	44,299,909	-	44,299,909	-
Property	1,545,060	-	-	1,545,060
Total Assets	***$ 237,005,883***	***$ 144,402,608***	***$ 77,203,339***	***$ 15,399,936***
Certificates of Participation	$ 82,491,987	$ -	$ 82,491,987	$ -
Obligations to Annuitants	8,469,979	-	8,469,979	-
Funds Held for Others	144,139,999	-	128,740,063	15,399,936
Total Liabilities	***$ 235,101,965***	***$ -***	***$ 219,702,029***	***$ 15,399,936***

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year.

Balance, beginning of year	$ 18,091,133
Purchases of investments	6,845,000
Increase in value	(605,122)
Sale of property	(105,619)
Sale of investments	(8,825,456)
Balance, end of year	***$ 15,399,936***

The net asset value of the common pooled funds administered by the Foundation was as follows:

Growth Fund	172.4337
Balanced Fund	135.4644
Income Fund	79.7989
Fixed Fund	71.0285
Multi-strategy Fixed Fund	89.0212
Balanced Fund - Traditional	116.5884
Domestic Equity	154.2184
Tactical Composite	99.3085
International	102.6727
Karpus	127.1566
Stonebridge	101.7588
Weaver C. Barksdale	85.2758
Crossmark Domestic	256.4527

NOTE 5 – NOTES RECEIVABLE

The Foundation has various notes receivable that have annual interest rates ranging from 0% to 18% and various maturity dates through December 2046. The interest rate for student loans is equal to prime minus one-half of a percent as of the time the promissory note is executed, and the rate remains fixed for the duration of the loan. No interest accrues on student loans while they are enrolled in school. It is assumed that the fair value of the loans approximates the loan balance since the loans bear interest at market rates for most of the life of the loan. Notes receivable consist of the following:

	Foundation	Organization	Total
Butler Student Loan Trust	$ 296,715	$ -	$ 296,715
Watson Student Loan Fund	16,748	-	16,748
Snellings Trust	1,086,577	-	1,086,577
Church Notes Receivable	-	43,936,828	43,936,828
Less allowance for uncollectible notes	(377,906)	(659,053)	(1,036,959)
Total Notes Receivables, Net	***$ 1,022,134***	***$ 43,277,775***	***$ 44,299,909***

Gross notes receivable for the Foundation as of December 31 are scheduled to mature as follows:

Current – 2023		$ 487,960
Long-Term:		
2024	$ 65,597	
2025	48,809	
2026	47,090	
2027	590,211	
2028 and thereafter	160,373	912,080
Total Notes Receivable		***$ 1,400,040***

Gross notes receivable for the Organization as of December 31 are scheduled to mature as follows:

Current – 2023		$ 1,213,993
Long-Term:		
2024	$ 1,380,573	
2025	1,477,391	
2026	1,551,454	
2027	1,612,341	
2028 and thereafter	36,701,076	42,722,835
Total Notes Receivable		***$ 43,936,828***

The Organization had 92 mortgage loans at December 31, 2022, bearing interest at rates from 3.25% to 5.75%. Although the Organization has no geographic restrictions on where the loans are made other than where member churches are located, all loans are to churches located in the State of North Carolina.

Notes receivable for the Organization are distributed by the size of the loan as follows:

Balance	Number	Average Balance	Total Balance	Percentage of Portfolio
Greater than $1,000,000	14	$ 1,626,132	$ 22,765,847	51.82%
$500,000 - 999,999	15	707,426	10,611,383	24.15%
$250,000 - 499,999	14	389,003	5,446,042	12.40%
$100,000 - 249,999	24	173,622	4,166,938	9.48%
Less than $100,000	25	37,865	946,618	2.15%
Total Notes Receivable	***92***		***$ 43,936,828***	***100%***

NOTE 6 – CREDIT QUALITY OF FINANCING RECEIVABLES

The Organization’s financing receivables consist of loans issued to finance capital improvements by North Carolina Baptist churches. These receivables are classified as church loans receivable on the statements of financial position.

The loan loss reserve is maintained at a level which, in management’s judgment, is adequate to absorb any losses in the loan portfolio. The Organization has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risk and losses inherent in the Organization’s portfolio. The Organization’s policy for the year ended December 31, 2022, was to maintain approximately 1.5% of all outstanding church loans receivable as a loan loss reserve.

For any impaired or potentially impaired loans, the Organization reserves the full value of the potential impairment in the loan loss reserve. During the year ended December 31, 2022, the Organization had no impaired loans.
Changes in the allowance for estimated losses on financing receivables in the aggregate are presented as follows:

Loan loss reserve:		
Beginning balance	$	672,282
Changes to provision		(13,229)
Ending Balance	$	659,053
Ending balance: collectively evaluated for impairment	***$***	***659,053***

Financing receivables:		
Ending Balance	$	43,936,828
Ending balance: collectively evaluated for impairment	***$***	***43,936,828***

NOTE 7 – PROPERTY

Property not used in operations has been recorded at estimated fair values as determined by the Foundation at the date of contribution. Independent appraisals have been obtained for the majority of these properties. Certain properties are presently available for sale. Others are reserved under life estate agreements or have been restricted by the donor.

Land and building balances by fund are as follows:

Goldston Christian Ministry Fund-Durham County, 9 lots	$	49,000
Lee Charitable Endowment Watauga County Land lots 3-4		88,000
114 Horne St., Raleigh NC House and Lot		435,000
Liles - Clayton NC		98,000
Mason - Raleigh NC		480,000
116-118 Horne St., Raleigh NC Apartment Complex		340,000
Subtotal		1,490,000
Sears Life Estate		55,060
Subtotal		55,060
Total Property Not Used in Operations	***$***	***1,545,060***

NOTE 8 – FIXED ASSETS AND SOFTWARE

Fixed assets consist of the following at December 31, 2022:

		Foundation		Organization		Total
Buildings	$	780,478	$	-	$	780,478
Furniture, fixtures and equipment		405,928		4,691		410,619
Vehicles		100,932		55,766		156,698
Total		1,287,388		60,457		1,347,795
Less: accumulated depreciation		(1,250,200)		(56,399)		(1,306,599)
Total Fixed Assets	***$***	***37,138***	***$***	***4,058***	***$***	***41,196***

Software costs of the Organization at December 31, 2022, was $70,952, net of $5,884 of amortization.

NOTE 9 – CERTIFICATES OF PARTICIPATION

The Organization issues certificates of participation. Funds received are used to originate church loans to North Carolina Baptist churches. The church loans are secured by first or second mortgages on the church properties. Original maturities range from three to twenty-five years with maturity dates through 2049. Interest rates are adjustable and range from 3.25% to 5.75%. The loans are serviced by The North Carolina Baptist Foundation on behalf of North Carolina Baptist Financial Services.

Certificates of participation are unsecured and are not insured. Investors are required to bear the financial risks of their investments.

The Organization is only permitted to issue certificates of participation to people residing in the state of North Carolina, who are members of a North Carolina Baptist church or affiliated with a North Carolina Baptist organization.

As of December 31, 2022, certificates of participation issued and outstanding totaled $82,491,987. The Organization's Board of Directors currently determines rates on the certificates of participation using the 10-year Treasury rate as a guide. Rates on demand certificates may be adjusted monthly; timed certificate rates remain fixed for the duration of the certificate. The average rate of return paid to certificate holders was 2.26% for the year ended December 31, 2022. Earnings are credited monthly to certificate holders' accounts and are automatically reinvested in the certificates of participation. Reinvested earnings are included in depositor funds on the accompanying statements of financial position. Certificates of participation may be redeemed by investors upon written notice to North Carolina Baptist Financial Services. Redemptions during the year ended December 31, 2022, were $9,953,395.

Certificates of participation mature as follows:

Current – 2023, including on-demand		$ 63,360,043
Long-Term:		
2024	$ 8,661,496	
2025	7,362,416	
2026	1,168,200	
2027	1,939,832	19,131,944
Total Certificates of Participation		***$ 82,491,987***

NOTE 10 – EMPLOYEE BENEFIT PLANS

Retirement Plan
The Foundation contributes to a multi-employer retirement plan for its eligible employees. Employees may choose from two fund families: Guidestone Financial Resources or the American Funds. After one year of employment, the Foundation contributes 10% per year of employees' compensation to the retirement plan. After three years of employment, employees can contribute 1% of compensation to the plan, with a full match by the Foundation. Every three years thereafter, employees can contribute an additional 1% of compensation to the plan, with the Foundation matching contributions up to 5%. Employees are fully vested in all contributions made to the plan on their behalf. Contributions to the plan were made by the Foundation for $120,664 and the Organization for $75,072 for a total of $195,736 during the year.

Post-Retirement Plan
The present value of the Foundation's obligations for post-retirement benefits as of December 31, 2022, were estimated using a 3.88% discount rate, a 10.5% annual increase in medical insurance premiums, a flat cost for life insurance premiums, and applicable mortality tables. Because of inherent uncertainties in estimating these future costs, it is reasonably possible that management's estimate of the Foundation's post-retirement benefit obligation may change materially in the near term.

Insurance premiums paid on behalf of retirees totaled $59,164.

NOTE 11 – BUILDING FUND/PROPERTY LEASE

During 1990, the Foundation completed the construction of a new office building. Costs related to construction were paid by funds solicited solely for that purpose. Unspent building fund net assets of $101 are included in net assets with donor restrictions as of December 31, 2022. The office site is located directly across the street from the Baptist State Convention on Convention-owned property. The Foundation leases the property from the Baptist State Convention for $10 annually under an operating lease which began in 1987 and was renewed in 2022 for an additional five years. The Foundation has the option to renew the lease for thirteen additional five-year terms. Should the Foundation wish to terminate the lease, the Baptist State Convention would be given first right to purchase the building thereon at its fair market value. Should the lessor elect not to purchase the building, the lessee would be free to convey the building, and assign its rights and interests in this property lease to any third party it deems appropriate. Should the Baptist State Convention wish to terminate the lease, they would be required to purchase the building at its fair market value.

NOTE 12 – ENDOWMENT FUNDS

The Board of Trustees of the Foundation has interpreted relevant state law 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, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the permanent endowment made at the time the accumulation is added to the fund as directed by the donor. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are expended by the organization in a manner consistent with the relevant endowment fund. The Foundation considers the following factors in deciding to spend or accumulate donor-restricted endowment funds:

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

Funds with Deficiencies
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. As of December 31, 2022, deficiencies of this nature exist in 51 donor-restricted endowment funds, which in aggregate have an original gift value of $4,557,455, a current fair value of $3,910,899 and a deficiency of $646,556. The majority of these deficiencies resulted from unfavorable market fluctuations and distributions from these funds over a long period of time.

Return Objectives and Risk Parameters
The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s), as well as any board-designated endowment funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark portfolio and its respective market index, while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide a total real rate of return of five percent (5%) or more in excess of inflation as measured by the Consumer Price Index (CPI). Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, the Foundation 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). The Foundation targets a diversified asset allocation for its entire investment portfolio that places an emphasis on equity-based and fixed income securities and cash equivalents to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy
The Foundation has a policy of appropriating for distribution each year a percentage (spending rate) of the trailing five-year market value. For 2022, the spending rate was 4%. In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowments
The Foundation’s endowments are to be maintained in perpetuity to be used primarily for Baptist institutions and causes. Endowment net assets as of December 31, 2022, are composed of donor-restricted endowment funds. The following schedule presents the changes in endowment net assets for 2022:

Endowment net assets, January 1, 2022	$	8,848,972
Investment Return:		
Investment income		176,972
Realized and unrealized loss		(1,595,480)
Total Investment Return		
Contributions		486,732
Appropriation of endowment assets for expenditure		(357,303)
Reclassification		(42,221)
Endowment Net Assets, December 31, 2022	***$***	***7,517,672***

NOTE 13 – FUNCTIONAL EXPENSES

The Foundation's activities are focused in two functional areas. Program services represent the primary focus of the Foundation's activities. Supporting services are general and administrative activities. The costs of providing the various programs and other activities are summarized on a functional basis below. Personnel expenses are allocated on management's estimate of time spent on the functional areas. All other expenses are allocated based on management's estimate of the various expenses that comprise those costs. Management determined that no expenses occurred related to fundraising activities during the year ended December 31, 2022.

	Program	Management and General	Consolidated Totals
Program Services:			
Baptist institutions and causes	$ 501,347	$ -	$ 501,347
Distributions to annuitants	112,887	-	112,887
Fiduciary Fees:			
Trust expenses	162,548	2,362	164,910
Personnel:			
Salaries and wages	1,192,467	219,633	1,412,100
Employee benefits and taxes	414,868	132,923	547,791
Operations:			
Information technology	32,450	60,698	93,148
Depreciation and amortization	41,255	7,061	48,316
Printing and promotional	123,444	-	123,444
Building and utilities	6,665	50,757	57,422
Professional fees	-	34,982	34,982
Office supplies	9,693	17,966	27,659
Auto and travel	33,109	11,598	44,707
Board and administrative	-	19,705	19,705
Bank fees	2,615	12,877	15,492
Miscellaneous	250	41,342	41,592
Interest Expense:			
Interest paid to investors	1,922,232	-	1,922,232
Loan Loss:			
Loan loss reserve	(13,229)	-	(13,229)
Total	***$ 4,542,601***	***$ 611,904***	***$ 5,154,505***

NOTE 14 – NET ASSETS

Board-Designated

The Foundation administers charitable gift annuities whereby in exchange for a gift, the Foundation promises to pay annuity recipients a fixed amount per year for their lifetime. The obligation to pay the annuitant is recorded as obligations to annuitants on the Statement of Financial Position, and the net is recorded as temporarily restricted net assets. If annuitants outlive their life expectancy, it is possible that the obligation to the annuitant could exceed the value of the gift. Therefore, the Foundation has designated $100,000 of its net assets without donor restrictions to cover any potential overages as of December 31, 2022. As of December 31, 2022, the shortfall for these obligations was $17,492.

NOTE 15 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation has $3,745,966 of financial assets which are neither designated nor restricted that are available within one year of the balance sheet date to meet cash needs for general expenditure, consisting of cash of $773,271, receivables of $59,552, which are expected to be collected during the year, and short-term investments of $2,913,143. The Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses, which are, on average, approximately $430,000. The Board maintains a reserve fund for net assets without donor restrictions. As of December 31, 2022, the reserve fund was $2,445,746, of which, $100,000 is designated as a gift annuity reserve. The Foundation's goal is to grow its reserve fund to cover one year's operating expenses. The Foundation also has a $2.25 million line of credit with Morgan Stanley Smith Barney, which is used to assist with liquidity needs for NC Baptist Financial Services.

The Organization has $36,660,934 of financial assets, which are neither designated nor restricted, that are available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of $3,904,823, investments of $31,368,710, current portion of notes receivables of $1,213,993, which are expected to be collected during the year and interest receivable of $173,408, which is expected to be collected within thirty days.

NOTE 16 – RELATED PARTY TRANSACTIONS

Board and staff members of the Organization and the Foundation, as well as their relatives, have invested in the certificates of participation of the Organization. Their holdings total approximately $2,114,990 as of December 31, 2022.

Additionally, the Foundation receives support from the Baptist State Convention, (the Convention) also, the Convention approves the Foundation's trustees. Contributions from the Convention to the Foundation were $70,609 during 2022. The Convention has funds invested at the Foundation that had a fair value of approximately $9,777,014, as well as funds invested at the Organization that had a fair value of approximately $8,637,339 as of December 31, 2022.

NOTE 17 – COMMITMENTS

In the normal course of business, the Organization makes commitments to extend mortgage loans to meet the financing needs of member churches. Outstanding commitments are letters that outline the terms and conditions of the loan to be granted. The commitments represent expected disbursements based on estimated construction costs and may vary based on actual costs of construction. The Organization's exposure to credit loss, in the event of nonperformance by the churches to which it has extended commitments, is limited to the amount of the commitment. The Organization controls the credit risk of its commitments through credit approvals, limits and monitoring procedures. At December 31, 2022, the Organization had extended loan commitments of $19,042,351.

NOTE 18 – CONCENTRATIONS AND RISK

Values in Excess of Insured Limits
Cash held in bank accounts is insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). The Foundation occasionally maintains cash balances in excess of insured limits. The total cash held by the Foundation at December 31, 2022, includes $5,486,490 of cash in excess of insured limits.

NOTE 19 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events from the date of the statement of financial position through the date of the independent auditors' report, which is the date the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.