
NORTHWEST BAPTIST FOUNDATION

AUDITED FINANCIAL STATEMENTS

Year Ended December 31, 2009

with

Supplementary Financial Information

and

Independent Auditor's Report

NORTHWEST BAPTIST FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Northwest Baptist Foundation
Vancouver, Washington

We have audited the accompanying statement of financial position of Northwest Baptist Foundation (the Foundation) as of December 31, 2009, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Baptist Foundation as of December 31, 2009, and changes in its net assets and its cash flows for the year then ended in conformity with accounting standards generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary financial information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "General Fund Expenses as a Percent of Total Assets," which is unaudited and upon which we express no opinion or any other form of assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McDonald Jacobs, P.C.

March 30, 2010

Strength in Numbers

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NORTHWEST BAPTIST FOUNDATION

Statement of Financial Position

December 31, 2009

		<u>General Fund</u>	<u>Endowment</u>	<u>Trust</u>	<u>Total</u>
	ASSETS				
1	Cash and cash equivalents	\$ -	\$ 753,607	\$ 298,487	\$ 1,052,094
2	Investments (Note 2)	9,500	2,524,854	19,520,704	22,055,058
3	Accrued interest receivable	133	43,259	291,508	334,900
4	Notes and contracts receivable (Note 3)	-	4,742,878	7,043,816	11,786,694
5	Equipment - net of accumulated depreciation of \$147,314 (Note 4)	92,057	-	-	92,057
6	Real estate (Note 5)	3,050	302,743	4,627,698	4,933,491
7	Other assets	33,176	-	287,342	320,518
8	Total assets	<u>\$ 137,916</u>	<u>\$ 8,367,341</u>	<u>\$ 32,069,555</u>	<u>\$ 40,574,812</u>
	LIABILITIES AND NET ASSETS				
	Liabilities:				
9	Book overdraft	\$ 12,225	\$ -	\$ -	\$ 12,225
10	Accounts payable	18,628	-	201,783	220,411
11	Accrued distributions	-	240,751	-	240,751
12	Accrued vacation	21,378	-	-	21,378
13	Notes payable (Note 6)	-	-	117,021	117,021
14	Agency, non-charitable and revocable trust funds (Note 7)	-	2,175,796	25,819,813	27,995,609
15	Liability under split-interest agreements Note 8)	-	-	2,155,974	2,155,974
16	Total liabilities	<u>52,231</u>	<u>2,416,547</u>	<u>28,294,591</u>	<u>30,763,369</u>
	Net Assets:				
	Unrestricted:				
17	Available for general operations	(6,372)	237,954	268,150	499,732
18	Board-directed endowment (Notes 9, 19)	-	580,458	-	580,458
19	Net investment in equipment	92,057	-	-	92,057
20	Total unrestricted	85,685	818,412	268,150	1,172,247
21	Temporarily restricted (Note 9)	-	1,243,910	1,350,907	2,594,817
22	Permanently restricted (Notes 9, 19)	-	3,888,472	2,155,907	6,044,379
23	Total net assets	<u>85,685</u>	<u>5,950,794</u>	<u>3,774,964</u>	<u>9,811,443</u>
24	Total liabilities and net assets	<u>\$ 137,916</u>	<u>\$ 8,367,341</u>	<u>\$ 32,069,555</u>	<u>\$ 40,574,812</u>

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

NORTHWEST BAPTIST FOUNDATION

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2009

	<u>General Fund</u>	<u>Endowment</u>	<u>Trust</u>	<u>Total</u>
Changes in unrestricted net assets:				
1	Revenues and gains:			
2	\$ 10,359	\$ -	\$ 27,000	\$ 37,359
3	424,863	-	-	424,863
4	18,000	-	-	18,000
5	39,600	-	-	39,600
6	67,950	-	-	67,950
7	5,610	70,420	16,660	92,690
8	(31)	(2,516)	54	(2,493)
9	950	1,068	(1,337)	681
10	-	(11,231)	-	(11,231)
11	198,858	(80,518)	-	118,340
12	-	(23,218)	-	(23,218)
13	-	-	(16,921)	(16,921)
14	-	420,635	32,177	452,812
15	766,159	374,640	57,633	1,198,432
Expenses (Note 13) :				
16	Program services			
17	203,832	19,337	26,262	249,431
18	31,548	45,931	-	77,479
19	38,732	396,805	5,915	441,452
20	185,356	-	-	185,356
21	459,468	462,073	32,177	953,718
22	Support services:			
23	180,261	-	-	180,261
24	47,351	-	-	47,351
25	227,612	-	-	227,612
26	687,080	462,073	32,177	1,181,330
27	79,079	(87,433)	25,456	17,102
	(Carried forward)			

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

NORTHWEST BAPTIST FOUNDATION

Statement of Activities and Changes in Net assets - Continued

Year Ended December 31, 2009

	General Fund	Endowment	Trust	Total
28 Increase (decrease) in unrestricted net assets (Brought Forward)	\$ 79,079	\$ (87,433)	\$ 25,456	\$ 17,102
Changes in temporarily restricted net assets:				
29 Gifts and contributions	-	20,617	103,291	123,908
30 Interest, dividends and other investment income	-	282,006	115,996	398,002
31 Net realized gains (losses) on investments	-	37,033	(1,029)	36,004
32 Net appreciation in the fair value of investments	-	114,265	1,938	116,203
33 Management fees related to investment income	-	-	(1,628)	(1,628)
34 Transfers (Note 11)	-	39,000	(126,679)	(87,679)
35 Reclassifications (Note 19)	-	494,289	-	494,289
36 Change in value of split-interest agreements	-	-	(105,214)	(105,214)
37 Net assets released from restrictions	-	(420,635)	(32,177)	(452,812)
38 Increase (decrease) in temporarily restricted net assets	-	566,575	(45,502)	521,073
Changes in permanently restricted net assets:				
39 Gifts and contributions	-	63,031	64,124	127,155
40 Interest, dividends and other investment income	-	3,778	183,974	187,752
41 Net realized losses on investments	-	-	(3,775)	(3,775)
42 Net depreciation in the fair value of investments	-	-	(714,521)	(714,521)
43 Management fees related to investment income	-	-	(53,368)	(53,368)
44 Transfers (Note 11)	-	158,638	(189,299)	(30,661)
45 Reclassifications (Note 19)	-	(471,071)	-	(471,071)
46 Change in value of split-interest agreements	-	-	(100,198)	(100,198)
47 Decrease in permanently restricted net assets	-	(245,624)	(813,063)	(1,058,687)
48 Increase (decrease) in net assets	79,079	233,518	(833,109)	(520,512)
49 Net assets, beginning of year	6,606	5,717,276	4,608,073	10,331,955
50 Net assets, end of year	\$ 85,685	\$ 5,950,794	\$ 3,774,964	\$ 9,811,443

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

NORTHWEST BAPTIST FOUNDATION

Statement of Cash Flows

Year Ended December 31, 2009

	<u>General Fund</u>	<u>Endowment</u>	<u>Trust</u>	<u>Total</u>
Cash flows from operating activities:				
1 Increase (decrease) in net assets	\$ 79,079	\$ 233,518	\$ (833,109)	\$ (520,512)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
2 Depreciation	25,807	-	-	25,807
3 Net depreciation (appreciation) in fair value of investments	(950)	(115,333)	713,920	597,637
4 Net realized (gains) losses on investments and equipment	31	(34,517)	4,750	(29,736)
Net change in:				
5 Accrued interest receivable	(133)	(6,691)	(23,950)	(30,774)
6 Other assets	(9,290)	110,154	259,118	359,982
7 Accounts payable	1,486	(1,744)	(7,438)	(7,696)
8 Accrued vacation	(2,151)	-	-	(2,151)
9 Revocable trust and agency funds	-	29,236	2,417,918	2,447,154
10 Accrued distributions	-	99,738	-	99,738
11 Liability under split-interest agreements	-	-	1,081	1,081
12 Net cash provided by operating activities	<u>93,879</u>	<u>314,361</u>	<u>2,532,290</u>	<u>2,940,530</u>
Cash flows from investing activities:				
13 Purchases of investments	(28,005)	(341,096)	(2,218,081)	(2,587,182)
14 Proceeds from sale of investments	19,355	235,740	1,532,971	1,788,066
15 Purchases of equipment	(7,455)	-	-	(7,455)
16 Net increase in notes and contracts receivable	-	(226,537)	(2,023,291)	(2,249,828)
17 Net cash used by investing activities	<u>(16,105)</u>	<u>(331,893)</u>	<u>(2,708,401)</u>	<u>(3,056,399)</u>
Cash flows from financing activities:				
18 Book overdraft	(77,774)	-	-	(77,774)
19 Proceeds from (payments on) notes payable	-	(44,016)	80,786	36,770
20 Net cash provided (used) by financing activities	<u>(77,774)</u>	<u>(44,016)</u>	<u>80,786</u>	<u>(41,004)</u>
21 Net decrease in cash and cash equivalents	-	(61,548)	(95,325)	(156,873)
22 Cash and cash equivalents, beginning of year	-	815,155	393,812	1,208,967
23 Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 753,607</u>	<u>\$ 298,487</u>	<u>\$ 1,052,094</u>

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

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations - Northwest Baptist Foundation (the Foundation) is incorporated under the laws of the State of Oregon as a nonprofit organization. The Foundation provides interim financing for church construction, bond financing services, and scholarships; serves as trustee for various revocable and irrevocable trusts, charitable trusts and endowments; and assists individuals in their estate and financial planning.

Constituency of the Foundation consists of messengers elected by Southern Baptist churches cooperating with the activities of the Northwest Baptist Convention. These churches are located primarily in Oregon, Washington and Idaho, and the Foundation operates from offices located in Vancouver, Washington. The Foundation's Board of Directors, elected annually by the Northwest Baptist Convention, has responsibility for the work of the Foundation in the intervals between the Convention's annual sessions.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors and/or the Foundation.

Basis of Presentation - Net assets and all balances and transactions are based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

In the accompanying financial statements, the Foundation's assets, liabilities and net assets are also reported in three self-balancing fund groups, as follows:

- *General* - Representing expendable funds that are available for support of the Foundation's activities.

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

1. Nature of Operations and Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued -

- *Endowment* - Representing funds subject to the restriction of gift instruments requiring, in perpetuity, that the principal be invested and only the income be utilized. While the Board of Directors has established Board-directed endowment funds for the same purposes as endowment funds, any portion of these funds may be expended. Term endowment funds are funds under which the terms of gift release the principal from restriction following a particular event or the passage of a stated period of time. Some perpetual trusts are for the benefit of other charitable organizations, an agency relationship, and are therefore reflected as a liability unless the Foundation has been granted variance power by the donor. Many of the endowment funds either require or state a preference that the funds be invested in a manner that allow them to be used principally in support financing of Northwest Baptist Convention church construction and other projects.
- *Trust* - Representing both revocable and irrevocable trusts established by donors under separate trust agreements. Revocable trusts are not present gifts to the Foundation, and the donor retains the right to withdraw the trust principal at any time, therefore these funds are reflected in the accompanying financial statements as a liability. In addition, some of the irrevocable trusts either do not provide for any charitable benefits, or provide benefits only for other charitable organizations. As such, the Foundation, acting as trustee, is considered to be an agent for accounting purposes and for these assets; an offsetting liability is reflected in the accompanying financial statements.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated time period has elapsed or use restriction has been satisfied) are reported as net assets released from restrictions.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, gains and expenses during the reporting period. Actual results could differ from those estimates.

Contributions - Contributions, which include unconditional promises to give, are recognized as revenues in the period the commitment was received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

1. Nature of Operations and Summary of Significant Accounting Policies - Continued

Foundation recognizes the fair value of assets donated to benefit others as a liability to the specified beneficiary concurrent with recognition of the assets received from the donor. However, if the donor explicitly grants the Foundation variance power, or if the recipient organization and the specified beneficiary are financially interrelated organizations, the recipient organization is required to recognize the fair value of any assets it receives as a contribution received.

Contributions of Long-Lived Assets - Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Administrative Fees - The Foundation charges a fee for most endowment and trust funds it manages. In addition, a fee is charged when the Foundation is serving as personal representative of an estate. Additional fees are charged for professional services that are not part of the normal management of the trust or estate.

Earnings on the Investment of Endowment Funds - Income and realized and unrealized net gains on the investment of endowment and similar funds are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of income; and
- As increases in unrestricted net assets in all other cases.

Cash and Cash Equivalents - Cash and cash equivalents consist primarily of money market and open checking accounts. Certificates of Deposit and other securities with original maturities over 90 days are classified as investments.

Cash in the bank exceeded the federally insured limit at various times during the year. At December 31, 2009, there is no limit for funds deposited in a non-interest bearing account; interest bearing accounts are insured up to \$250,000. As of December 31, 2009, the balance in interest bearing accounts at the bank exceeded the federally insured limit by approximately \$455,000.

Investments - Investments in stock, bonds, U.S. Treasury securities, and mutual funds are reflected at fair market value. Church bonds are reflected at their carrying value which approximates market. The invested asset market values were determined by management as described in Note 18. Unrealized gains and losses [appreciation (depreciation)] are included in the changes in net assets in the accompanying Statement of Activities. Concentrations of investment credit risk are limited, due to diversification of the investments held by the Foundation.

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

1. Nature of Operations and Summary of Significant Accounting Policies - Continued

Notes and Contracts Receivable - Notes and contracts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Equipment - Equipment is recorded at cost or fair market value (in the case of gifts) at the time of acquisition. Maintenance, repairs and minor renewals are charged as expenses. Equipment sold is removed from the accounts, and the related gain or loss is reflected at that time.

Depreciation - The costs of all assets with useful lives of more than one year are capitalized. All depreciable assets are being depreciated over their estimated useful lives using the straight-line method. Equipment is depreciated over lives ranging from 5 to 10 years; office improvements are depreciated over 40 years.

Real Estate - Real estate held for investment purposes is recorded at estimated fair value based upon appraisals, when available; otherwise values are determined using the best information available which may include market values reported by property tax assessors and purchase and sale agreements.

Other Assets - Other assets consist primarily of the cash values of life insurance policies, prepaid expenses, personal property held in revocable trusts and miscellaneous receivables and are recorded at either carrying value or fair value, as appropriate.

Income Taxes - Under current federal and state income tax regulations, the Foundation is exempt from tax under Internal Revenue Service Code Section 501(c)(3), and is not classified as a private foundation. As such, it is taxed only on income unrelated to its exempt purpose. Currently, none of the activities of the Foundation give rise to unrelated taxable income; therefore, no amount is provided for income taxes in the financial statements. Certain activities of the Foundation are subject to the State of Washington's Business and Occupation (B&O) tax. A provision for B&O taxes is charged against unrestricted net assets in the period that the revenue from those activities is earned.

Subsequent Events

The Foundation has evaluated all subsequent events through March 30, 2010, the date the financial statements were available to be issued.

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

2. Investments

Investments are summarized as follows at December 31, 2009:

Common and preferred stocks	\$ 402,000
Corporate bonds	45,806
U.S. Treasury securities	79,588
Mutual funds	4,281,113
Church bonds	17,094,403
Annuities	<u>152,148</u>
	<u>\$ 22,055,058</u>

As of December 31, 2009, twelve issuers of church bonds missed, or were late in paying, regularly scheduled interest payments and/or principal payments on their bonds. Two of these caught up their payments during January 2010. The underwriter and transfer agent for these issuers have indicated that they are working with the churches in an effort to bring the payments current. Eight of the issuers were more than one payment delinquent. Accrued interest on these eight issues totaled \$63,597 as of December 31, 2009. A reserve in this amount has been established, and has been deducted from the total accrued interest receivable reported in the Statement of Financial Position. No reserve has been established for the principal portion of these bonds. Management believes that the value of the underlying security for the bonds is sufficient to recover the principal in the event that foreclosure is required.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Financial Position.

3. Notes and Contracts Receivable

The notes receivable of the Foundation represent 36 loans made primarily to Baptist organizations, with four loans representing approximately 50% of total notes receivable. The interest rates on these loans range from 0 percent to 9 percent. The maturity dates range from October 2010 to April 2043. All notes receivable are secured by collateral, most of which is real property.

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

4. Equipment

The following is a summary of equipment at December 31, 2009:

	Original Cost	Accumulated Depreciation	Net Amount
Automobiles	\$ 106,683	\$ 68,842	\$ 37,841
Computer equipment and software	76,799	49,940	26,859
Furniture	27,852	21,806	6,046
Office Improvements	15,025	2,201	12,824
Other Equipment	13,012	4,525	8,487
Total	\$ 239,371	\$ 147,314	\$ 92,057

5. Real Estate

Real estate is summarized as follows:

Vacant land	\$ 322,961
Personal residences	2,236,270
Rental properties	1,095,640
Church land and buildings	1,275,570
Other	3,050
	<u>\$4,933,491</u>

6. Notes Payable

Notes payable consist of the following at December 31, 2009:

Loans payable to the Foundation's Fixed Income Pool, payable upon the receipt of proceeds from sale of real property, with interest at 7.5%.	\$ 74,415
Loan payable by an irrevocable trust managed by the Foundation to a related revocable trust managed by the Foundation, payable in monthly payments of interest only at 6.5%, principal due at maturity in 2023.	23,315
Note payable to GE Lending (revocable trust): payable in monthly installments of \$475, including interest at 8.75%, secured by vehicle.	18,150
Loan payable to Midland National Life Insurance Company, payable at termination of life insurance policy, secured by life insurance with interest at 7.4%.	1,141
	<u>\$ 117,021</u>

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

6. Notes Payable - Continued

Future maturities are as follows:

Years Ending December 31,	
2010	\$ 78,693
2011	4,667
2012	5,092
2013	4,113
2014	-
Thereafter	<u>24,456</u>
	<u>\$ 117,021</u>

7. Changes in Agency, Non-Charitable and Revocable Trust Funds

Changes in revocable trust funds for the year ended December 31, 2009 are as follows:

Balance at beginning of year	\$25,548,455
Additions - funds received on behalf of others	5,539,176
Investment income	1,244,938
Administrative fees	(241,255)
Change in market value of assets	234,126
Deductions - funds distributed on behalf of others	<u>(4,329,831)</u>
Balance at end of year	<u>\$27,995,609</u>

8. Split-Interest Agreements

The Foundation serves as trustee of various charitable remainder unitrusts and charitable remainder annuity trusts (forms of split-interest agreements). Under the terms of the remainder trusts, the donors and/or their families receive annual distributions from the trusts during their lifetime. At the termination of the trust (generally at the time of the donor's death), the assets of the trust will be distributed to the Foundation, either outright or by converting to a perpetual endowment trust, to be managed similarly to the other existing perpetual trusts. Based on donor life expectancy, and the use of an 8.5% discount rate, the present value of future payments expected to be paid by the Foundation for charitable remainder trusts is summarized in the table below. Assets held in charitable remainder unitrusts totaled \$2,540,444 at December 31, 2009 and assets held in charitable remainder annuity trusts totaled \$230,426. These assets are included with investments in the accompanying Statement of Financial Position.

On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The market value of the new remainder trusts created during the year is recorded as an asset. The net assets related to these charitable remainder trusts (total assets less the present value of the future payments to the beneficiaries) is reported as either temporarily restricted, if the assets are transferred outright to the Foundation at termination, or permanently restricted, if the trust will convert to a perpetual endowment.

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

8. Split-Interest Agreements – Continued

The Foundation issues charitable gift annuities (a form of split-interest agreement). Under these annuities, the donor transfers assets, to the Foundation in exchange for a promise to pay an annual annuity, generally for the remaining life of the donor. The present value of future payments under gift annuities was computed using discount rates and life expectancies mandated by the State of Washington. That present value, plus an additional 10% surplus, totaled \$265,733 at December 31, 2009 and is the estimated liability for gift annuities included on the Statement of Financial Position as part of the liability under split-interest agreements. This computation is required to be used, under Washington regulations for both the estimated liability related to Charitable Gift Annuities and for the required segregated reserves. (See Note 16)

Assets held in gift annuities totaled \$415,670 at December 31, 2009. The Foundation allows donors to designate up to 75% of the remainder interest in an annuity to go to another charitable beneficiary, either outright or by means of a perpetual endowment. Net assets received under gift annuities are recorded as temporarily restricted for any portion designated to go outright to other charitable beneficiaries, permanently restricted for any portion designated to become a perpetual endowment, and as unrestricted for the balance designated outright to the Foundation.

The Foundation manages various life income funds. These trusts are similar to charitable remainder trusts described above, but without tax exempt status. The donors of these funds are paid the actual income earned on their fund until the terms of the trust are satisfied, often at their death. At that time the funds revert to the Foundation. The assets are included with investments in the accompanying Statement of Financial Position. Assets under life income funds totaled \$1,135,723 at December 31, 2009. On an annual basis, the Foundation revalues the liability for distributions to the designated beneficiaries based on an estimated time period until the termination of the trust. Using an 8.5% discount rate the present value of future payments for life income funds was \$490,410 at December 31, 2009. Net assets under life income funds are recorded as temporarily restricted for any portion designated outright to the Foundation at termination, or permanently restricted, if the trust will convert to a perpetual endowment.

The Foundation's liability under split-interest agreements at December 31, 2009 is summarized as follows:

Charitable remainder unitrusts	\$ 1,267,791
Charitable remainder annuity trusts	132,040
Charitable gift annuities	265,733
Life income funds	<u>490,410</u>
Total liability under split-interest agreements	<u>\$ 2,155,974</u>

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

9. Restrictions and Limitations on Net Asset Balances

Temporarily restricted net assets at December 31, 2009 consist of contributions, investment income and other unexpended revenues and gains available for the following purposes:

Program services	\$ 1,243,910
Future periods	<u>1,350,907</u>
	<u>\$ 2,594,817</u>

At December 31, 2009, the Foundation had \$6,044,379 in permanently restricted net assets, as follows:

<i>Endowment</i> - Income unrestricted or temporarily restricted	\$ 3,888,472
<i>Trust</i> - Present value of split-interest agreements and other trusts restricted by donors to endowment and church loan purposes	<u>2,155,907</u>
	<u>\$ 6,044,379</u>

In addition, at December 31, 2009, the Foundation's Board of Directors had designated \$580,458 of unrestricted net assets for endowment purposes.

10. Related Party Transactions

The Foundation receives office space, at no rent, from the Northwest Baptist Convention. Management estimates that the annual fair rental value of the space provided to the Foundation is approximately \$39,600. This transaction is reflected in the Statement of Activities as in-kind contributions.

The Foundation has investments and church bonds which are invested with Strongtower Financial (Strongtower). Strongtower is a related party in that the Foundation's President is a board member of Strongtower. No investment fees were paid to Strongtower for the year. In addition, the Foundation leased space until June 2009 and provides administrative support to Strongtower. The total amount paid by Strongtower to the Foundation for these services approximated \$11,000.

11. Transfers

From time to time, certain trusts and endowments distribute income to the Foundation for its unrestricted use. When this occurs, the cash is added to the General Fund, and the transaction is reflected as a transfer on the Statement of Activities and Changes in Net Assets. In addition, at the termination of certain trusts, assets are distributed to the Foundation either outright, or to establish perpetual endowments. These assets are added to the unrestricted, temporarily restricted or permanently restricted net assets of the appropriate fund according to the donor restrictions, and reflected as a transfer on the Statement of Activities and Changes in Net Assets.

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

12. Net Assets Released from Restrictions

The Foundation incurred expenses and/or made distributions totaling \$452,812 in satisfaction of the restricted purposes imposed by donors. Distributions are reflected in program and support services, transfers or change in value of split interest agreements on the Statement of Activities.

13. Expenses

The costs of providing the various programs and other services of the Foundation have been summarized on a functional basis in the Statement of Activities, and do not include expenses from the agency, non-charitable and revocable trusts. Accordingly, certain expenses have been allocated among the programs and supporting services benefited. During 2009, expenses by natural classification for program services were as follows:

	General Fund	Endowment	Trust	Total
Salaries and related costs	\$ 348,700	\$ -	\$ -	\$ 348,700
Administrative fees	2,584	17,320	22,634	42,538
Distributions of income	-	442,736	5,915	448,651
Office	25,938	-	-	25,938
Travel	10,683	-	-	10,683
Board and committee	5,761	-	-	5,761
Rent	34,068	-	-	34,068
Auto	6,171	-	-	6,171
Depreciation	18,315	-	-	18,315
Other	7,248	2,017	3,628	12,893
Total	\$ 459,468	\$ 462,073	\$ 32,177	\$ 953,718

Expenses for support services have been summarized, based upon management's estimates, on a functional basis in the Statement of Activities and do not include expenses from the agency, non-charitable and revocable trusts. Support services expenses by natural classification were as follows:

Salaries and related costs	\$ 142,603
Administrative fees	2,584
Promotion	5,960
Professional services	18,630
Office	14,470
Insurance	949
Travel	4,368
Board and committee	3,841
Rent	13,932
Auto	2,524
Depreciation	7,492
Other	10,259
Total	\$ 227,612

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

14. Convention Annuity Plan

The Foundation participates in Guidestone Financial Resource's Convention Annuity Plan, which is a plan described in section 403(b) of the Internal Revenue Code. Under the plan, employees may defer a portion of their salary into the plan in any amount up to the maximum allowed by the Code. The Foundation contributes an amount equal to 10 percent of each qualified employee's gross income. Contributions to the Plan for 2009 were \$38,563.

15. Supplemental Cash Flow Information

Interest paid during the year	<u>\$ 6,722</u>
Non-cash investing activities:	
Net contributions of non-cash assets in trust and endowments, including revocable trusts	<u>\$1,811,992</u>
Net distributions of non-cash assets from trusts and endowments, including revocable trusts	<u>\$ 398,290</u>

16. Charitable Gift Annuity Reserves

The Foundation maintains a reserve fund (included in cash and investments) for its charitable gift annuities as required by the states of Oregon and Washington. Currently the Foundation deposits 100% of the assets used to fund the gift annuities into the reserve fund until the annuity terminates (usually at the death of the donor). At that time the remaining assets for that annuity are removed from the reserve fund and distributed to the charitable remainder beneficiary(ies), including the Foundation.

Both Oregon and Washington require that the amount set aside in the reserve fund be no less than an amount equal to the present value of the future annuity payments for all annuities, computed using actuarial tables and assumptions specified by state law. Each state's law specifies its own actuarial assumptions and tables, and therefore, each state's requirement for the reserve fund is different. In addition, the state of Washington requires that an additional 10% surplus be added to the reserve fund. As of December, 31, 2009, the Foundation's reserve fund totaled \$415,012. Each state's required reserves are summarized as follows:

State of Oregon	<u>\$248,274</u>
State of Washington – base amount	\$241,576
10% surplus	<u>24,157</u>
Total reserve	<u>\$265,733</u>

The Foundation had ten annuities issued in the state of Oregon as of December 31, 2008. Two annuities issued in the state of Oregon terminated due to the death of the annuitant during 2009. Annual annuity payments of \$19,390 are required for the remaining eight annuities.

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

16. Charitable Gift Annuity Reserves - Continued

The Foundation had seven annuities issued in the state of Washington as of December 31, 2008. No new annuities were issued in the state of Washington during 2009, nor did any annuities issued in Washington terminate. Annual annuity payments of \$19,788 are required for these seven annuities.

Under the laws of the state of Washington, the Foundation must maintain unrestricted net assets of at least \$500,000 in order to be allowed to continue issuing gift annuities in that state.

The activity for the charitable gift annuities and the reserve fund for the year are as follows:

Reserve balance, beginning	\$ 434,194
New annuities	-
Investment earnings	30,855
Management fees	(4,169)
Distributions to charities at termination of annuity	(7,885)
Annuity payments to beneficiaries	<u>(37,983)</u>
Reserve balance, ending	<u><u>\$ 415,012</u></u>

17. Commitments

At December 31, 2009 the Foundation had approved a loan that had not yet funded in the amount of \$200,000. This is for a loan that is partially funded. The remaining amounts will be advanced when the borrower has obtained a commitment from an approved lender for construction financing. It is anticipated that this will occur in mid 2010.

In 2007, the Foundation issued two irrevocable letters of credit on behalf of churches totaling \$94,236. If needed, these letters of credit require the Foundation to make loans to the churches in order for them to complete landscaping related to their recent building construction projects. They remain in effect until released by the counties where the churches are located, which will occur following the completion of the required landscaping, and, in one case, the expiration of an 18 month warranty period. In 2009, one of the letters of credit was released. The remaining letter of credit, in the amount of \$93,161 remains in effect.

18. Fair Value Measurements

Assets and liabilities recorded at fair value in the Statement of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

18. Fair Value Measurements - Continued

Level 3: Unobservable inputs reflecting management’s own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

Fair values for investments, other than church bonds are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of church bonds is estimated to be at face value of the bonds, based upon comparable purchases and sales experienced in limited markets. Real estate is valued based upon appraisals, when available; otherwise values are determined using the best information available which may include market values reported by property tax assessors and purchase and sale agreements. Other assets consist of personal property based on identical items and life insurance valued at cash surrender value as reported by the issuer of the policy. The liability under split interest agreements is determined by calculating the present value of the future distributions to be made using published life expectancy tables and applicable discount rates for each agreement (see Note 8).

Fair values of assets and liabilities measured on a recurring basis at December 31, 2009 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments, except				
church bonds and pool assets	\$ 4,309,801	\$ 4,309,801	\$ -	\$ -
Investments in pooled assets	650,854		650,854	
Church bonds	17,094,403	-	17,094,403	-
Real estate	4,933,491	-	4,933,491	-
Other Assets	287,342	-	287,342	-
 Liabilities:				
Liability under split-interest agreements	 (2,155,974)			 (2,155,974)
 Liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):				
Liability under split-interest agreements:				
Balance at beginning of year			\$ (2,154,893)	
Change in value in split interest agreement				(222,333)
New agreements				(63,064)
Payments to beneficiaries				284,316
Balance at end of year			<u>\$ (2,155,974)</u>	

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

19. Endowment

Northwest Baptist Foundation's endowments consist of 129 individual funds and agency accounts established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors (the Board) of Northwest Baptist Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) enacted by the States of Oregon and Washington as requiring the institution to consider both the need to distribute income and the need for preservation of capital absent explicit donor stipulations to the contrary. To that end, state law allows the Board to expend or accumulate any portion of the fund that it deems prudent. While not expressly stated in state law, the Board believes that the Act encourages the Foundation to strive to preserve the "Historical Dollar Value" (Fair value of original and subsequent contributions at the time of the contribution, plus required accumulations) of the various endowment funds over time. Furthermore, it is understood that, from time to time, the fair market value of some endowment funds may be below their Historic Dollar Value due to economic conditions, including recessionary cycles in the market. Even under such conditions, the Board has determined that the Foundation may nevertheless continue to distribute income from those funds according to its normal spending policy if it deems it prudent to do so. Based upon this, the Board has determined that under state law, 80% of the Historic Dollar Value of each fund is required to be retained permanently, and accordingly, that portion of each donor restricted endowment fund is reported as permanently restricted net assets. Declines in value below 80% of the Historic Dollar Value are reported as decreases in unrestricted net assets. The remaining portion of each donor-restricted endowment fund that is not classified in permanently restricted or unrestricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Foundation 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 the Foundation, the charitable beneficiaries and the donor-restricted funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation and the other charitable beneficiaries
- (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 80% of their Historic Dollar Value. Deficiencies of this nature were \$1,207, including \$92 in agency accounts as of December 31, 2009.

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

19. Endowment - Continued

Return Objectives and Risk Parameters

Northwest Baptist 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 board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected benchmarks while assuming a commensurate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average income return between 4 percent and 5 percent annually, plus growth returns that keep pace with current inflation. 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 that places a greater emphasis on income-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Northwest Baptist Foundation has a policy of appropriating for distribution each year the natural income (interest and dividends less a portion of the management fees) earned by the funds. In establishing this policy, the Foundation considered the long-term expected return on its endowments. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average rate that approximates inflation. 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.

Endowment Net Asset Composition by Type of Fund

Endowment net assets consist of the following at December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 237,954	\$ 1,243,910	\$ 3,888,472	\$ 5,370,336
Board designated endowment funds	<u>580,458</u>	<u>-</u>	<u>-</u>	<u>580,458</u>
Total endowment funds	<u>\$ 818,412</u>	<u>\$ 1,243,910</u>	<u>\$ 3,888,472</u>	<u>\$ 5,950,794</u>

NORTHWEST BAPTIST FOUNDATION

Notes to Financial Statements - Continued

19. Endowment – Continued

Changes in endowment assets for the year ended December 31, 2009 are summarized as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 905,845	\$ 677,335	\$ 4,134,096	\$ 5,717,276
Reclassifications due to law change	<u>(23,218)</u>	<u>494,289</u>	<u>(471,071)</u>	<u>-</u>
Net after reclassifications	882,627	1,171,624	3,663,025	5,717,276
Investment Return:				
Investment Income, net of expense	59,189	282,006	3,778	344,973
Realized and unrealized gain (loss)	<u>(1,448)</u>	<u>151,298</u>	<u>-</u>	<u>149,850</u>
Total investment return	57,741	433,304	3,778	494,823
Contributions, including transfers	-	59,617	221,669	281,286
Administrative fees and other expenses	(19,337)	-	-	(19,337)
Appropriated for expenditure, including transfers	<u>(102,619)</u>	<u>(420,635)</u>	<u>-</u>	<u>(523,254)</u>
Endowment net assets, ending	<u>\$ 818,412</u>	<u>\$ 1,243,910</u>	<u>\$ 3,888,472</u>	<u>\$ 5,950,794</u>

NORTHWEST BAPTIST FOUNDATION

Supplementary Financial Information

NORTHWEST BAPTIST FOUNDATION

Schedule of Cash and Cash Equivalents, Investments and Other Assets

December 31, 2009

	General Fund		Endowment		Trust		Total	
	Cost or Other Basis	Market Value	Cost or Other Basis	Market Value	Cost or Other Basis	Market Value	Cost or Other Basis	Market Value
1 Cash and cash equivalents	\$ -	\$ -	\$ 753,607	\$ 753,607	\$ 298,487	\$ 298,487	\$ 1,052,094	\$ 1,052,094
Investments:								
2 Common and preferred stocks	-	-	-	-	412,124	402,000	412,124	402,000
3 Bonds	-	-	-	-	50,005	45,806	50,005	45,806
4 U.S. Treasury securities	-	-	-	-	52,356	79,588	52,356	79,588
5 Mutual funds	-	-	1,364,376	1,296,519	3,235,102	2,984,594	4,599,478	4,281,113
6 Church bonds	8,550	9,500	1,237,770	1,228,335	15,856,336	15,856,568	17,102,656	17,094,403
7 Annuities	-	-	-	-	147,194	152,148	147,194	152,148
8 Total investments	8,550	9,500	2,602,146	2,524,854	19,753,117	19,520,704	22,363,813	22,055,058
Other assets:								
9 Accrued interest receivable	133	133	43,259	43,259	291,508	291,508	334,900	334,900
10 Notes and contracts receivable	-	-	4,742,878	4,742,878	7,046,816	7,043,816	11,789,694	11,786,694
11 Equipment	92,057	92,057	-	-	-	-	92,057	92,057
12 Real estate	1,181	3,050	255,855	302,743	2,780,524	4,627,698	3,037,560	4,933,491
13 Other assets	33,176	33,176	-	-	214,236	287,342	247,412	320,518
14 Total other assets	126,547	128,416	5,041,992	5,088,880	10,333,084	12,250,364	15,501,623	17,467,660
15 Total cash and cash equivalents, investments and other assets	\$ 135,097	\$ 137,916	\$ 8,397,745	\$ 8,367,341	\$ 30,384,688	\$ 32,069,555	\$ 38,917,530	\$ 40,574,812

See Auditor's Report

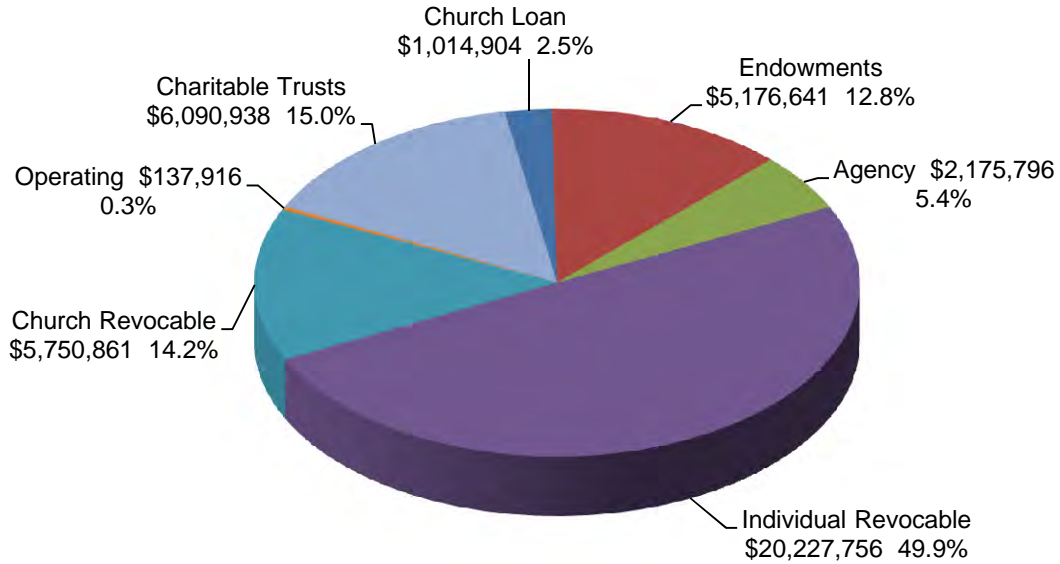
NORTHWEST BAPTIST FOUNDATION

Schedule of Notes and Contracts Receivable

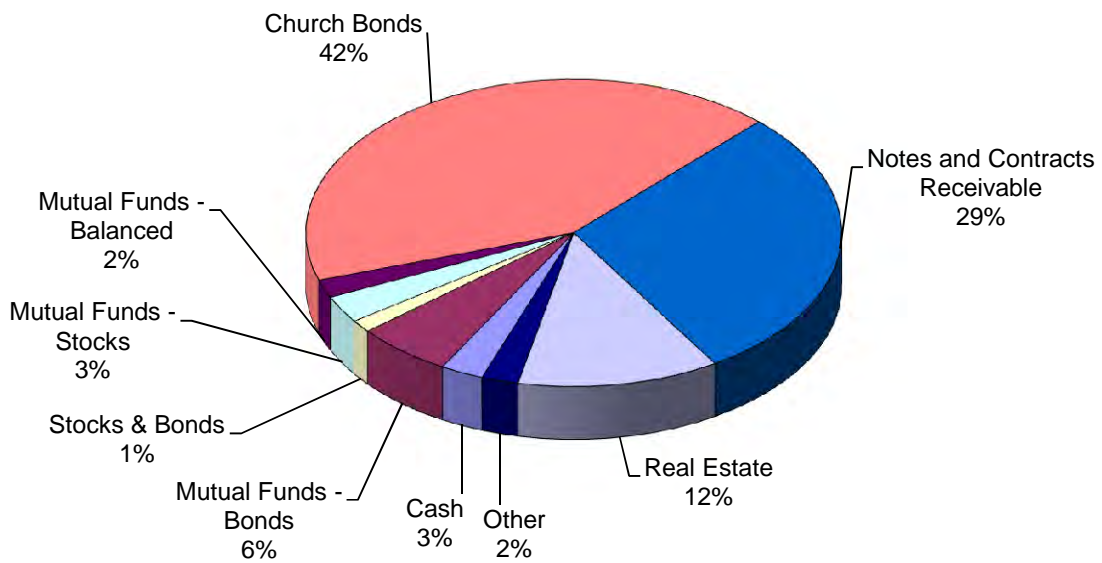
December 31, 2009						
		Original Loan Date	Original Amount	Interest Rate	Term	Balance 12/31/2009
Interstate Baptist Association loan fund:						
1	Bible Fellowship Community Church, Vancouver, WA	03/06/07	40,000	1.00%	7	\$ 17,527
2	Clackamas Valley Baptist Church, Estacada, OR	08/29/07	15,000	1.00%	7	9,097
3	Clackamas Valley Baptist Church, Estacada, OR	11/16/09	10,000	1.00%	7	9,555
4	Community Baptist, Battle Ground, WA	11/01/07	10,000	1.00%	7	7,097
5	Crosspointe Baptist Church, Vancouver, WA	02/16/07	75,000	1.00%	7	67,801
6	Grace Baptist Church, Vancouver, WA	02/13/09	10,000	1.00%	7	7,091
7	Lacamas Heights Baptist, Camas, WA	02/17/06	66,300	1.00%	7	30,255
8	Northside Baptist Church, Vancouver, WA	08/08/04	40,000	1.00%	7	9,294
9	Solid Rock Baptist, Portland, OR	07/23/04	80,074	1.00%	7	29,454
10	Total Interstate Baptist Association loan fund					<u>187,171</u>
Foundation church loan funds:						
11	Aberdeen Avenue Baptist Church, Aberdeen, WA	02/01/06	35,000	8.00%	10	24,998
12	Blue Mountain Baptist Church, Walla Walla, WA	05/26/05	243,000	6.25%	15	185,313
13	Calvary Baptist Church, Burlington, WA	07/24/08	650,000	6.50%	5	356,802
14	Chestnut Street Baptist Church, Ellensburg, WA	12/21/09	867,250	6.50%	15	867,250
15	Evangelical Baptist Church, Kent, WA	12/12/08	1,800,000	6.50%	15	1,754,620
16	Faith Community Church, Ocean Shores, WA	07/25/05	759,919	6.50%	15	452,897
17	First Baptist Church, Monroe, WA	03/28/08	1,200,000	6.50%	15	1,212,000
18	First Baptist Church, North Bend, OR	06/01/03	30,000	7.25%	10	5,790
19	First Baptist Church, Zillah, WA	07/25/07	7,000	8.00%	5	3,961
20	First Ukrainian Baptist Church, Auburn, WA	12/31/09	1,660,913	6.50%	15	1,660,913
21	Holgate Baptist Church, Portland, OR	02/14/05	155,000	7.00%	15	121,365
22	Japanese International Baptist Church, Tigard, OR	11/15/09	314,000	6.75%	5	313,379
23	Northwest Baptist Convention, Vancouver, WA	06/30/06	1,185,000	7.00%	8	770,379
24	Orient Dr Baptist Church, Boring, OR	12/15/03	100,603	7.75%	12	61,413
25	Parkland Baptist Church, Tacoma, WA	11/01/06	181,100	8.00%	15	159,221
26	Richland Baptist Church, Richland, WA	05/05/07	177,910	8.00%	15	159,033
27	Safe Family Ministries, Chehalis, WA	04/30/08	693,750	6.50%	10	665,500
28	Trinity Baptist Church, Lakeview, OR	04/15/99	53,000	9.00%	15	14,264
29	Valley Christian Fellowship, Longview, WA	10/15/07	180,000	7.50%	15	164,446
30	Total Foundation church loan funds					<u>8,953,544</u>
Other loans:						
31	Alder Street Baptist Church, Centrailia, WA	03/01/98	74,945	7.50%	20	74,612
32	Centro Cristiano Nuevo Pacto, George, WA	10/06/00	35,000	8.50%	10	34,812
33	DJ&M Investments, Medford, OR	11/18/07	1,250,000	8.00%	4	1,250,000
34	First Baptist Church, Phoenix, OR	03/24/05	39,792	6.50%	10	1,104
35	Greater Gresham Baptist Church, Gresham, OR	05/20/09	200,000	0.00%	34	200,000
36	Pilot Rock Baptist Church, Pilot Rock, OR	11/20/06	55,000	6.25%	15	48,284
37	Skagit Baptist Church, Sedro Woolley, WA	05/01/07	20,000	8.00%	10	16,115
38	Loans to individuals and other miscellaneous loans	Various	-	Various	Various	1,021,052
39	Total other loans					<u>2,645,979</u>
40	Total notes and contracts receivable					<u>\$ 11,786,694</u>

NORTHWEST BAPTIST FOUNDATION
December 31, 2009

ASSETS BY FUND
December 31, 2009



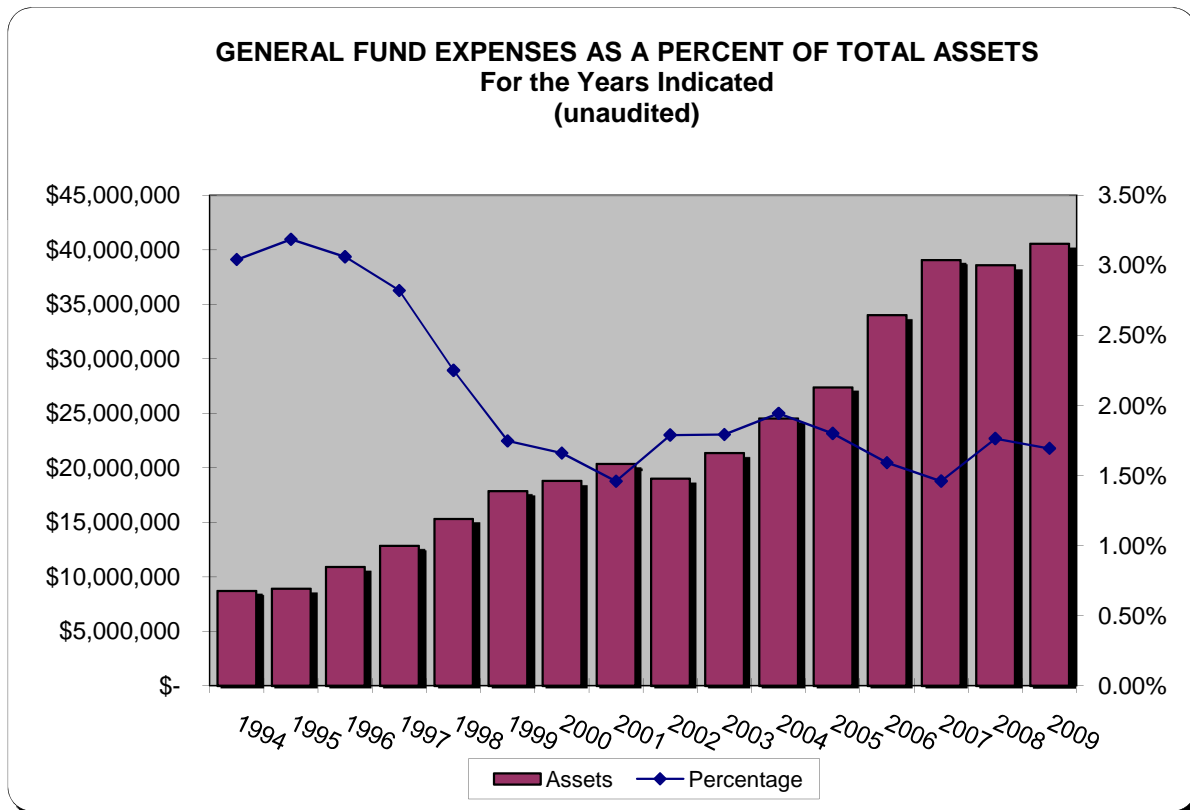
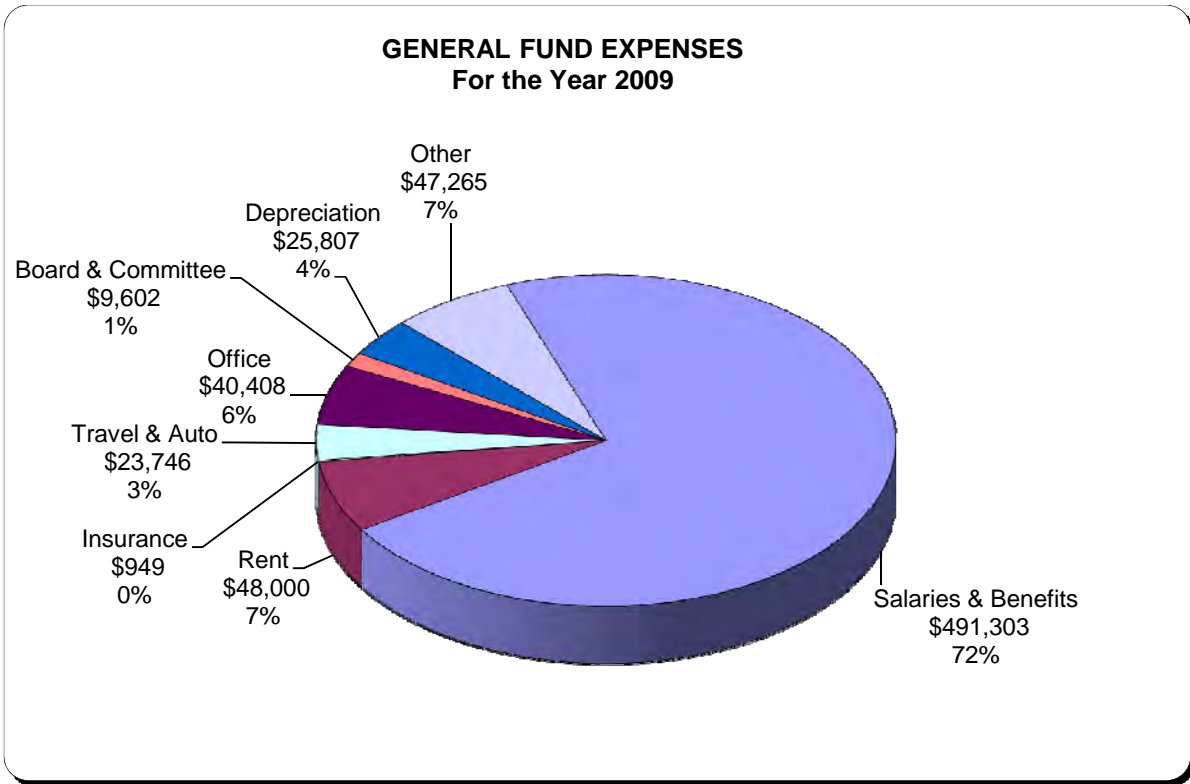
ASSETS BY TYPE
December 31, 2009



See auditor's report.

NORTHWEST BAPTIST FOUNDATION

December 31, 2009



See auditor's report.