

**TENNESSEE BAPTIST  
CHILDREN'S HOMES, INC.**

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2018**



TENNESSEE BAPTIST CHILDREN’S HOMES, INC.

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## Independent Auditor's Report

The Board of Trustees  
Tennessee Baptist Children's Homes, Inc.  
Brentwood, Tennessee

### **Report on Financial Statements**

We have audited the accompanying financial statements of Tennessee Baptist Children's Homes, Inc. (a nonprofit organization), which comprise the statement of financial position as of October 31, 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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





*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Baptist Children's Homes, Inc. as of October 31, 2018, 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.

**Report on Summarized Comparative Information**

We have previously audited the Tennessee Baptist Children's Homes, Inc.'s 2017 financial statements, and our report dated December 5, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Crosslin, PLLC*

Nashville, Tennessee  
December 4, 2018

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2018  
(with comparative totals for 2017)

<u>ASSETS</u>	<u>October 31,</u>	
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 2,750,925	\$ 2,537,297
Investments (Note B)	9,561,258	9,341,597
Accrued income receivable	19,212	10,215
Prepaid expenses and other assets	306,019	268,379
Funds held in custody for children	16,634	15,186
Deposits held by others	449,841	471,781
Beneficial interests in trusts held by trustees (Note J)	16,021,339	16,418,901
Property, buildings and equipment, net (Note C)	<u>6,813,137</u>	<u>7,069,381</u>
Total assets	<u>\$35,938,365</u>	<u>\$36,132,737</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes D and F)	\$ 1,560,134	\$ 2,249,886
Funds held in custody for children	<u>16,634</u>	<u>15,186</u>
Total liabilities	<u>1,576,768</u>	<u>2,265,072</u>
<u>NET ASSETS</u>		
Unrestricted (Note H):		
Invested in property	\$ 5,088,633	5,344,876
Designated for operating reserve	4,791,929	3,660,818
Designated for operations	-	418,987
Designated for East Tennessee	<u>1,421,091</u>	<u>1,379,208</u>
	<u>11,301,653</u>	<u>10,803,889</u>
Temporarily restricted:		
Program services	530,857	444,404
Invested in property	1,724,504	1,724,504
Residual trust held by trustees (Note J)	<u>118,337</u>	<u>341,365</u>
	<u>2,373,698</u>	<u>2,510,373</u>
Permanently restricted:		
Endowment (Note L)	4,783,43	4,475,967
Perpetual trusts held by trustees (Notes J and L)	<u>15,903,003</u>	<u>16,077,436</u>
	<u>20,686,246</u>	<u>20,553,403</u>
Total net assets	<u>34,361,597</u>	<u>33,867,665</u>
Total liabilities and net assets	<u>\$35,938,365</u>	<u>\$36,132,737</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2018  
(with comparative totals for 2017)

	Total	
	2017	2018
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,474,721	\$ 1,487,697
Contributions	3,940,732	4,678,733
Contributions of beneficial interests in trusts held by trustees	332,329	62,810
Fundraising events	298,842	250,341
Bequests	1,362,867	389,363
Income from trusts	556,553	513,584
Noncash gifts	116,145	104,517
Noncash gifts - fundraising events	56,457	38,369
Net assets released from restrictions (Note I)	-	-
Total support	<u>8,138,646</u>	<u>7,525,414</u>
Revenue:		
Investment income	52,760	132,108
Investment gains (loss)	835,357	(123,917)
Investment gains (loss) on funds held by trustees	1,035,493	(233,594)
Child support payments	33,663	26,490
Rental income	49,055	52,035
Property sale	211,294	164,829
Other	52,198	60,003
Total revenue	<u>2,269,820</u>	<u>77,954</u>
Total support and revenue	<u>10,408,466</u>	<u>7,603,368</u>
Expenses:		
Program services	5,989,744	5,607,157
Supporting services	1,962,905	1,502,279
Total expenses	<u>7,952,649</u>	<u>7,109,436</u>
Total increase in net assets	2,455,817	493,932
Net assets at beginning of year	<u>31,411,848</u>	<u>33,867,665</u>
Net assets at end of year	<u>\$ 33,867,665</u>	<u>\$34,361,597</u>



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<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,487,697	\$ -	\$ -
4,614,044	63,184	1,505
-	8,038	54,772
-	250,341	-
287,331	-	102,032
486,686	23,695	2,925
-	104,517	-
-	38,369	-
<u>422,157</u>	<u>(622,693)</u>	<u>200,536</u>
<u>7,297,915</u>	<u>(134,549)</u>	<u>362,048</u>
129,485	2,263	-
(123,917)	-	-
-	(4,389)	(229,205)
26,490	-	-
52,035	-	-
164,829	-	-
60,003	-	-
<u>309,285</u>	<u>(2,126)</u>	<u>(229,205)</u>
<u>7,607,200</u>	<u>(136,675)</u>	<u>132,843</u>
5,607,157	-	-
1,502,279	-	-
<u>7,109,436</u>	<u>-</u>	<u>-</u>
497,764	(136,675)	132,843
<u>10,803,889</u>	<u>2,510,373</u>	<u>20,553,403</u>
<u>\$11,301,653</u>	<u>\$ 2,373,698</u>	<u>\$ 20,686,246</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED OCTOBER 31, 2018  
(with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase in net assets	\$ 493,932	\$ 2,455,817
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Investment loss (gain)	375,261	( 539,733)
Investment loss (gain) on funds held by trustees	( 233,594)	(1,035,493)
Depreciation	588,415	588,838
Gifts in-kind	( 32,000)	-
Increase in accrued income receivable	( 8,997)	( 4,633)
Increase in prepaid expenses and other assets	( 37,640)	( 18,049)
Decrease in property held for sale	-	72,951
Decrease in deposits held by others	21,940	35,650
Decrease (Increase) in beneficial interests in trusts	568,344	( 220,964)
Decrease in accounts payable and accrued liabilities	<u>( 689,752)</u>	<u>( 345,202)</u>
Net cash provided by operating activities	<u>1,045,909</u>	<u>989,182</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	62,811	332,329
Purchases of property and equipment	( 343,716)	( 225,649)
Sale of property	43,546	-
Purchases of investments	(721,848)	(1,536,321)
Proceeds from sales of investments and property held for sale	<u>126,926</u>	<u>332,230</u>
Net cash used in investing activities	<u>(832,281)</u>	<u>(1,097,411)</u>
Net increase (decrease) in cash and cash equivalents	213,628	( 108,229)
Cash and cash equivalents:		
Beginning of year	<u>2,537,297</u>	<u>2,645,526</u>
End of year	<u>\$ 2,750,925</u>	<u>\$ 2,537,297</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED OCTOBER 31, 2018  
(with comparative totals for 2017)

Total			Program Services
2017	2018		
\$ 3,361,503	\$ 3,211,816	Salaries	\$ 2,331,335
1,124,150	688,808	Retirement and group insurance	754,344
245,906	236,461	Social security	177,480
59,596	73,592	Workers' compensation insurance	61,256
38,309	30,591	Houseparent incentive pay	30,591
<u>4,829,464</u>	<u>4,241,268</u>	Total Salaries and Related Benefits	<u>3,355,006</u>
12,694	6,470	Activities	6,470
25,401	21,162	Allowance & work program	21,162
8,392	4,144	Appreciation events	-
9,948	11,328	Background verification	11,090
9,989	8,747	Board meetings	-
15,318	18,601	Christmas and birthday gifts	18,601
38,652	21,974	Clothing	21,974
41,184	28,953	Cottage outings	28,953
19,932	14,345	Data communications	12,034
8,780	22,826	Dues and memberships	21,174
132,663	106,122	Education	106,122
70,119	53,021	Equipment	48,563
128,565	101,443	Event costs	-
464	1,927	Family ministries	1,927
22,560	25,054	Farm	25,054
224,786	152,660	Food	152,660
34,891	30,628	Household goods	30,628
206,562	195,869	Insurance	175,605
37,680	25,678	Lawn maintenance	25,678
180,407	191,548	Maintenance	184,687
40,329	35,304	Medical	35,304
14,845	13,054	Miscellaneous	811
-	189	Mother's aid	189
56,572	49,762	Office	25,885
12,183	9,089	Personal hygiene	9,089
52,909	46,527	Postage	3,698
115,225	108,694	Printing & publicity	655
31,289	22,055	Professional services - legal	20,440
27,195	19,843	Professional services - non legal	-
15,591	33,465	Public relations services	-
30,527	19,765	Recreation	19,765
-	30	Rent	30
28,432	21,437	Spiritual enrichment & training	15,628
52,304	42,534	Supplies	42,534
18,739	16,792	Taxes	16,710
115,716	64,971	Telephone	48,805
103,873	131,092	Technology	60,300
103,819	120,440	Travel	81,731
367,459	372,251	Utilities	364,449
69,095	68,222	Vehicle fuel	57,218
49,258	41,737	Vehicle maintenance and repair	36,919
<u>7,363,811</u>	<u>6,521,021</u>	Total Expenses Before Depreciation	<u>5,087,548</u>
588,838	588,415	Depreciation of buildings & equipment	519,609
<u>7,952,649</u>	<u>7,109,436</u>	Total Expenses	<u>\$ 5,607,157</u>
100.0%	100.0%	Percentages	<u>78.9%</u>

Supporting Services		
Management & General	Development	Total
\$ 586,367	\$ 294,114	\$ 880,481
(159,087)	93,551	(65,536)
37,056	21,925	58,981
6,258	6,078	12,336
-	-	-
470,594	415,668	886,262
-	-	-
-	-	-
-	4,144	4,144
89	149	238
8,747	-	8,747
-	-	-
-	-	-
-	-	-
1,377	934	2,311
1,652	-	1,652
-	-	-
4,458	-	4,458
-	101,443	101,443
-	-	-
-	-	-
-	-	-
-	-	-
16,934	3,330	20,264
-	-	-
4,439	2,422	6,861
-	-	-
4,370	7,873	12,243
-	-	-
14,859	9,018	23,877
-	-	-
1,280	41,549	42,829
-	108,039	108,039
1,615	-	1,615
18,088	1,755	19,843
-	33,465	33,465
-	-	-
-	-	-
3,858	1,951	5,809
-	-	-
82	-	82
8,014	8,152	16,166
25,080	45,712	70,792
12,811	25,898	38,709
4,525	3,277	7,802
9,941	1,063	11,004
4,444	374	4,818
617,257	816,216	1,433,473
64,102	4,704	68,806
\$ 681,359	\$ 820,920	\$ 1,502,279
9.6%	11.5%	21.1%

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2018  
(with comparative totals for 2017)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Tennessee Baptist Children's Homes, Inc., ("Children's Homes") is solely owned and operated by the churches of the Tennessee Baptist Convention for the purpose of ministering the love of Jesus Christ to children and families in crisis. The significant accounting principles and practices followed by the Children's Homes are presented below.

Accrual Basis and Financial Statement Presentation

The Children's Homes presents its financial statements on the accrual basis of accounting.

The Children's Homes net assets and its revenue, expenses, gains, and losses are classified into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of the Children's Homes and changes therein are classified as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Children's Homes and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that require the assets to be maintained permanently by the Children's Homes. Generally, the donors of these assets permit the Children's Homes to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is displayed in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities.

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation are exercised by management in certain areas of the preparation of financial statements, the most significant areas being the recovery period for property, buildings and equipment and accrued postretirement benefit cost. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2018  
(with comparative totals for 2017)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Children's Homes considers all cash and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Children's Homes considers any funds invested with GuideStone Financial Services ("GS") to be investments, considering the intent of their investing activities.

Comparative Financial Statements

The financial information shown for fiscal year 2017 in the accompanying statement of financial position, statement of activities, statement of cash flows and statement of functional expenses is included to provide a basis for comparison with fiscal year 2018.

Investments

The Children's Homes reports investments at fair value with gains and losses included in the statement of activities. See notes B and K.

Contributions

The Children's Homes reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Children's Homes has elected to report contributions received with donor imposed restrictions as an increase to unrestricted net assets if the restrictions are met in the same fiscal year that the contributions are received.

The Children's Homes reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Children's Homes reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2018  
(with comparative totals for 2017)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property, Buildings and Equipment

Property, buildings, improvements, furniture, equipment and vehicles are stated in the accompanying statement of financial position at cost, or if contributed, at fair value at date of gift.

Depreciable assets are depreciated using the straight-line method over their estimated useful lives.

Donated Materials and Services

Donated materials and certain services are included in the accompanying financial statements at their fair value at date of receipt.

Income Taxes

The Children's Homes is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Children's Homes accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Children's Homes include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Children's Homes has determined that such tax positions do not result in an uncertainty requiring recognition.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2018  
(with comparative totals for 2017)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Funds Held in Trust for Others

Consistent with its charter powers and purposes, the Children's Homes, as trustee, holds certain funds totaling \$66,271 and \$39,631 at October 31, 2018 and 2017, respectively, in accordance with the terms of various trust instruments in which the Children's Homes may have an actual or potential interest. The trusted assets and liabilities are eliminated for reporting purposes. Any residual values which may be received by the Children's Homes have been recorded as beneficial interests in trusts at their respective fair values (Note J).

Pledges

At October 31, 2018, the Children's Homes had no unconditional promises to give. Conditional promises to give at October 31, 2018 and 2017, were \$600,000 and \$753,545, respectively. These conditional pledges are due over the next several years. It is not practical to estimate the net realizable value of such conditional pledges.

Fair Value Measurements

The Children's Homes utilizes FASB ASC 820, *Fair Value Measurements and Disclosures*, which established a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures regarding the use of fair value measures. Assets and liabilities recorded at fair value in the statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note K). Level inputs are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spread, and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.



TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2018  
(with comparative totals for 2017)

B. INVESTMENTS

Investments at October 31, 2018 and 2017, were as follows:

	Total 2018		Total 2017	
	Market	Cost	Market	Cost
Mutual Funds	\$4,797,674	\$4,627,569	\$5,033,525	\$4,509,382
Certificates of Deposit	4,791,628	4,766,000	4,285,942	4,290,000
Insurance Policy	16,384	16,384	15,650	15,650
Stock	5,572	6,603	6,480	6,603
	<u>\$9,561,258</u>	<u>\$9,416,556</u>	<u>\$9,341,597</u>	<u>\$8,821,635</u>

Investments at October 31, 2018 and 2017, for each class of net assets were as follows:

	Total	
	2018	2017
Unrestricted	\$4,810,062	\$4,810,062
Permanently restricted	4,531,535	4,531,535
	<u>\$9,341,597</u>	<u>\$9,341,597</u>

Investment income, excluding unrealized gains, earned on investments owned by the Children's Homes amounted to \$348,299 and \$348,299 for the years ended October 31, 2018 and 2017, respectively. This income represents yields of 4.2% and 4.5% based on the cost of such investments, and 4.0% and 4.4% based on the market of such investments for fiscal years 2018 and 2017, respectively.

The total return (income yield plus investment gains) on investments owned by the Children's Homes was a gain of .09% and 11.2% based on the cost of such investments, and a gain of .09% and 11.0% based on the market of such investments for fiscal years 2018 and 2017, respectively.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2018  
(with comparative totals for 2017)

C. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment at October 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,346,504	\$ 3,356,504
Buildings	13,535,275	13,923,684
Furnishings and equipment	548,257	634,202
Improvements other than buildings	1,421,804	1,350,380
Other machinery and equipment	620,952	542,093
Vehicles	<u>190,583</u>	<u>855,968</u>
	20,263,375	20,662,831
Less accumulated depreciation	<u>(13,450,238)</u>	<u>(13,593,450)</u>
Net investment in property, buildings and equipment	<u>\$ 6,813,137</u>	<u>\$ 7,069,381</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2018  
(with comparative totals for 2017)

D. POSTRETIREMENT BENEFITS

Retirement severance benefits are provided to all retiring employees. In addition, the Children's Homes provides postretirement health care and term life insurance benefits to certain Children's Homes employees provided they remain employed at the Children's Homes until retirement. These benefits cover four retired employees and two active employees and will not be extended to future employees.

The status of the plan at October 31, 2018 and 2017, was as follows:

	<u>2018</u>	<u>2017</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,413,428	\$ 1,617,506
Service cost	12,494	15,306
Interest cost	46,061	52,544
Actual benefit disbursements	( 115,610)	( 81,154)
Change in assumptions	( 78,517)	( 101,797)
Actuarial (gain)	<u>( 486,273)</u>	<u>( 88,977)</u>
Benefit obligation at the end of year	<u>\$ 791,583</u>	<u>\$ 1,413,428</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	115,610	81,154
Actual benefit disbursements	<u>( 115,610)</u>	<u>( 81,154)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$ 791,583</u>	<u>\$ 1,413,428</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$ 791,583</u>	<u>\$ 1,413,428</u>

The net periodic postretirement benefit costs recognized during the years ended October 31, 2018 and 2017, which are included in salaries and related benefits, are comprised of the following components:

	<u>2018</u>	<u>2017</u>
Service cost (benefits earned during the period)	\$12,494	\$15,306
Interest cost on accumulated postretirement benefit obligation	46,061	52,544
Loss to the extent recognized	<u>-</u>	<u>9,919</u>
	<u>\$58,555</u>	<u>\$77,769</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
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D. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit costs of \$58,555 and \$77,769 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2018 and 2017, respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2019.

The net periodic postretirement benefit costs recognized were determined using the weighted - average and assumed annual increases as follows:

The Children's Home uses an October 31 measurement date for its postretirement benefit plan.

	October 31,	
	2018	2017
Discount Rate	4.26%	3.39%
Expected Long-Term Health Care cost Increase -		
Initial Rate - Post-65 (Medical/Rx)	3.2% - 6.90%	3.6% - 7.50%
Ultimate Rate - Post-65 (Medical/Rx)	3.2% - 5.25%	3.6% - 5.25%
Time to Ultimate Rate	8 years	8 years
Future compensation levels	2.00%	2.00%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Year Ending October 31</u>	<u>Amount</u>
2019	\$80,308
2020	44,186
2021	49,250
2022	55,839
2023	64,341
2024 - 2028	336,907

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D. POSTRETIREMENT BENEFITS - Continued

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, the effect of a 1% increase or decrease in the trend rate of the health care cost portion of net periodic postretirement benefit cost for the year ended October 31, 2018 is as follows:

	Health Care Cost Rend Rate		
	Assumed	Impact (1%)	Impact (+1%)
2017 - 2018 NPPBC Components			
(a) 2017 - 2018 Service Cost	\$ -	\$ -	\$ -
(b) 2017 - 2018 Interest Cost	<u>37,419</u>	<u>( 3,723)</u>	<u>4,346</u>
Aggregate of (a + b)	\$ 37,419	\$( 3,723)	\$ 4,346
APBO as of October 31, 2018	<u>\$ 537,036</u>	<u>\$( 46,479)</u>	<u>\$ 53,579</u>

E. PENSION PLAN

The Children's Homes participates in the retirement program of GuideStone Financial Resources. The plan is a defined contribution plan covering all full-time employees who have completed three years of paid denominational service. The Children's Homes makes contributions to the plan on behalf of eligible employees in amounts equal to 12% of each employee's base salary. According to the plan's provisions, employees may also make certain contributions to the plan. All contributions made to the plan are immediately fully vested to the covered employees.

Under the plan, the value of accumulated benefits is equal to the value of the assets. There is no unfunded value of accrued plan benefits. Pension expense totaled \$267,197 and \$258,154 during the years ended October 31, 2018 and 2017, respectively.

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F. DEFERRED COMPENSATION PLAN

The Children's Homes has a non-elective deferred compensation plan to provide benefits payable to certain management employees at specific future dates, upon termination, retirement, death or disability. Total expense was \$19,684 and \$19,593 during the years ended October 31, 2018 and 2017, respectively. The related liability is included in accounts payable and accrued liabilities in the statement of financial position.

G. CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Children's Homes to concentrations of credit risk, consist principally of cash and cash equivalents and investments. Cash and cash equivalents at October 31, 2018 and 2017, include demand deposits at financial institutions which management believes are high credit quality financial institutions. The deposits possess credit risk to the extent they exceed federally insured limits. Management believes the exposure to concentrations of credit risk relative to securities is limited due to the Children's Homes investment objectives and policies of maintaining a variety of quality investments. Credit risk also extends to uncollateralized receivables.

H. UNRESTRICTED NET ASSETS

Investment in property contains the book value of fixed assets utilized in the Children's Homes' childcare ministry. Funds are available from these net assets only upon sale or exchange of the related assets.

Designated for operating reserve:

The Board has set aside a designated reserve to supplement budget income. Income and transfers from the reserve supplement funds received from the Cooperative Program and other sources enabling the Children's Homes to maintain its childcare programs, staff and facilities.

Income from the sale of land and large estate gifts have been the primary sources of additions to this reserve. These income sources occur at irregular times, in unpredictable amounts, and cannot be relied upon for current budget funding due to their erratic nature.

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H. UNRESTRICTED NET ASSETS - Continued

The Board's plan is to wisely utilize these funds by continuing to add to the board designated reserve similar revenues if and when received. Maintaining this reserve is necessary so that the annual budget can rely on the income and transfers from this reserve as a stable source of income to meet ongoing operational expenses that are in excess of Cooperative Program support and other budget revenue.

Designated for East Tennessee - Funds from an East Tennessee estate gift have been set aside for the resumption of the Children's Homes' Knoxville area residential program as well as other ministry programs in the East Tennessee region.

I. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$422,157 were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The purpose restrictions accomplished were for program services.

J. BENEFICIAL INTERESTS IN TRUSTS

Beneficial interests in trusts represents funds held and administered by trustees in accordance with the terms of various trust instruments and includes both residual and perpetual trusts. Residual trusts are structured to pay a remainder corpus amount in the future. Perpetual trusts are structured to pay ongoing income. This income is either currently paying or will be paying in the future.

The Children's Homes records beneficial interest in trusts at their fair value. At October 31, 2018 and 2017, the fair values are as follows:

	<u>2018</u>	<u>2017</u>
Residual trusts:		
Children's Homes as trustee	\$ 69,570	\$ 300,089
Held by outside trustees	<u>48,766</u>	<u>41,376</u>
Total residual trusts	<u>118,336</u>	<u>341,465</u>
Perpetual trusts held by outside trustees:		
Tennessee Baptist Foundation as trustee	11,602,268	11,618,385
Other trustees	<u>4,300,735</u>	<u>4,459,051</u>
Total perpetual trusts held by outside trustees	<u>15,903,003</u>	<u>16,077,436</u>
Total beneficial interests in trusts held by trustees	<u>\$16,021,339</u>	<u>\$16,418,901</u>

During 2018 and 2017, the Children's Homes received interest and dividends of \$513,584 and \$556,553, respectively, on funds held in trust.

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K. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Children's Homes assessment of available market information and appropriate valuation methodologies. The following table summarizes fair value measurements at October 31, 2018 and 2017, for the assets and liabilities measured at fair value on a recurring basis:

<u>October 31, 2018</u>	Assets Measured at	<u>Fair Value Measurements Using</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds	\$ 4,797,674	\$4,797,674	\$ -	\$ -
Certificates of deposit	4,741,628	4,741,628	-	-
Stock	5,572	-	-	-
Insurance policy	<u>16,384</u>	<u>-</u>	<u>-</u>	<u>16,384</u>
	9,561,258	9,544,874	-	16,384

Beneficial interests	16,418,901	-	16,418,901	-
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<u>October 31, 2017</u>	Assets Measured at	<u>Fair Value Measurements Using</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds	\$ 5,033,525	\$5,033,525	\$ -	\$ -
Certificates of deposit	4,285,942	4,285,942	-	-
Stock	6,480	6,480	-	-
Insurance policy	<u>15,650</u>	<u>-</u>	<u>-</u>	<u>15,650</u>
	9,341,597	9,325,947	-	15,650

Beneficial interests	16,418,901	-	16,418,901	-
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The carrying value of cash equivalents, receivables, and accounts payable and accrued liabilities approximate fair value based on the short-term nature of these instruments.

L. ENDOWMENT FUNDS

The Children's Homes' endowment consists of individual funds established for a variety of purposes and includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.



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L. ENDOWMENT FUNDS - Continued

**Interpretation of Relevant Law**

The Children's Homes has interpreted SUPMIFA, State of Tennessee's State Uniform Prudent Management of Institutional Funds Act, as requiring the preservation 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 Children's Homes classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by applicable state laws. In accordance with applicable state laws, the Children's Homes considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Children's Homes and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Children's Homes
- The investment policies of the Children's Homes

**Endowment Net Asset Composition by Type of Fund as of October 31, 2018**

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$13,389	\$ 4,783,243	\$ 4,796,632
Perpetual trusts held by trustees	<u>-</u>	<u>15,903,003</u>	<u>15,903,003</u>
Total funds	<u>\$13,389</u>	<u>\$20,686,246</u>	<u>\$20,699,235</u>

**Endowment Net Asset Composition by Type of Fund as of October 31, 2017**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$31,909	\$ 4,475,967	\$ 4,507,876
Perpetual trusts held by trustees	<u>-</u>	<u>16,077,436</u>	<u>16,077,436</u>
Total funds	<u>\$31,909</u>	<u>\$20,553,403</u>	<u>\$20,585,312</u>

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L. ENDOWMENT FUNDS - Continued

**Changes in Endowment Net Assets for the years ended October 31, 2018 and 2017**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Endowment net assets</i> , October 31, 2016	\$ 31,031	\$ 18,409,768	\$ 18,440,799
Investment return:			
Investment income	42,800	-	42,800
Net appreciation (depreciation) (realized and unrealized)	<u>878</u>	<u>972,687</u>	<u>973,565</u>
Total investment return	<u>43,678</u>	<u>972,687</u>	<u>1,016,365</u>
Contributions	<u>-</u>	<u>1,171,948</u>	<u>1,170,948</u>
Appropriation of endowment assets for expenditure	<u>(42,800)</u>	<u>-</u>	<u>( 42,800)</u>
<i>Endowment net assets</i> , October 31, 2017	<u>31,909</u>	<u>20,553,403</u>	<u>20,585,312</u>
Investment return:			
Investment income	73,550	-	73,500
Net appreciation (depreciation) (realized and unrealized)	<u>(18,520)</u>	<u>(229,205)</u>	<u>(247,725)</u>
Total investment return	<u>55,030</u>	<u>(229,205)</u>	<u>(174,175)</u>
Contributions	<u>-</u>	<u>362,048</u>	<u>362,048</u>
Appropriation of endowment assets for expenditure	<u>(73,550)</u>	<u>-</u>	<u>(73,550)</u>
<i>Endowment net assets</i> , October 31, 2018	<u>\$ 13,389</u>	<u>\$ 20,686,246</u>	<u>\$ 20,699,635</u>

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L. ENDOWMENT FUNDS - Continued

Return Objectives and Risk Parameters

The Children's Homes' investment and spending policies for endowment assets attempts to provide a stream of funding for its programs. Endowment assets include those assets of donor-restricted funds that the Children's Homes must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested with the goals of high current return and preservation of capital. The Children's Homes expects its endowment funds to provide the maximum attainable current yield while assuming a minimum level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its objectives, the Children's Homes relies on a strategy in which investment returns are achieved through current yield (interest and dividends). The Children's Homes does not invest in companies or industries whose known products, services or practices are contrary to the beliefs or practices of Southern Baptists.

Spending Policy and How Investment Objectives Relate to Spending Policy

The Children's Homes has a practice of appropriating the current earnings for distribution annually. In establishing this practice the Children's Homes considered the critical need for annual income as well as the existence of non-endowment investments. This is consistent with the Children's Homes objectives of achieving high current return and preservation of capital.

M. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 4, 2018, the issuance date of the financial statements, and has determined that there are no subsequent events requiring disclosure.