

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

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2019**

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, 2019, and the related statements of activities, functional expenses and cash flows 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, 2019, 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.

***Changes in Financial Statement Presentation***

As discussed in Note A, Tennessee Baptist Children's Homes adopted Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of liquidity and availability of resources, which has been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

**Report on Summarized Comparative Information**

We have previously audited the Tennessee Baptist Children's Homes, Inc.'s 2018 financial statements, and our report dated December 4, 2018, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Crosslin, PLLC*

Nashville, Tennessee  
December 10, 2019

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2019  
(with comparative totals for 2018)

<u>ASSETS</u>	<u>October 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,789,485	\$ 2,750,925
Investments (Note C)	10,150,933	9,561,258
Accrued income receivable	23,251	19,212
Prepaid expenses and other assets	323,677	306,019
Funds held in custody for children	7,400	16,634
Deposits held by others	481,137	449,841
Beneficial interests in trusts held by trustees (Note K)	16,752,731	16,021,339
Property, buildings and equipment, net (Note D)	<u>6,539,661</u>	<u>6,813,137</u>
Total assets	<u>\$37,068,275</u>	<u>\$35,938,365</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes E and G)	\$ 1,664,773	\$ 1,560,134
Funds held in custody for children	<u>7,400</u>	<u>16,634</u>
Total liabilities	<u>1,672,173</u>	<u>1,576,768</u>
<u>NET ASSETS</u>		
Net assets without donor restrictions:		
Invested in property	4,815,157	5,088,633
Designated for operating reserve	5,054,772	4,791,929
Designated for operations	<u>1,564,349</u>	<u>1,421,091</u>
Total net assets without donor restrictions	<u>11,434,278</u>	<u>11,301,653</u>
Net assets with donor restrictions:		
Subject to purpose and/or time restrictions	2,542,707	2,373,698
Invested in perpetuity	<u>21,419,117</u>	<u>20,686,246</u>
Total net assets with donor restrictions	<u>23,961,824</u>	<u>23,059,944</u>
Total net assets	<u>35,396,102</u>	<u>34,361,597</u>
Total liabilities and net assets	<u>\$37,068,275</u>	<u>\$35,938,365</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2019  
(with comparative totals for 2018)

	Total	
	2018	2019
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,487,697	\$ 1,485,829
Contributions	4,678,733	3,848,904
Contributions of beneficial interests in trusts held by trustees	62,810	18,440
Fundraising events	250,341	210,098
Bequests	389,363	759,657
Income from trusts	513,584	559,207
Noncash gifts	104,517	212,376
Noncash gifts - fundraising events	38,369	26,455
Net assets released from restrictions (Note J)	-	-
Total support	<u>7,525,414</u>	<u>7,120,966</u>
Revenue:		
Investment income	132,108	245,569
Investment gains (loss)	( 123,917)	457,464
Investment gains (loss) on funds held by trustees	( 233,594)	712,951
Child support payments	26,490	48,457
Rental income	52,035	55,488
Property sale	164,829	-
Other	60,003	84,529
Total revenue	<u>77,954</u>	<u>1,604,459</u>
Total support and revenue	<u>7,603,368</u>	<u>8,725,425</u>
Expenses:		
Program services	5,607,157	5,969,066
Supporting services	1,502,279	1,721,854
Total expenses	<u>7,109,436</u>	<u>7,690,920</u>
Total increase in net assets	493,932	1,034,505
Net assets at beginning of year	<u>33,867,665</u>	<u>34,361,597</u>
Net assets at end of year	<u>\$ 34,361,597</u>	<u>\$35,396,102</u>

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<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
\$ 1,485,829	\$ -
3,708,118	140,786
-	18,440
-	210,098
759,657	-
553,328	5,879
19,179	193,197
-	26,455
<u>408,672</u>	<u>( 408,672)</u>
<u>6,934,783</u>	<u>186,183</u>
245,876	2,746
454,412	-
-	712,951
48,457	-
55,488	-
-	-
<u>84,529</u>	<u>-</u>
<u>888,762</u>	<u>715,697</u>
<u>7,823,545</u>	<u>901,880</u>
5,969,066	-
<u>1,721,854</u>	<u>-</u>
<u>7,690,920</u>	<u>-</u>
132,625	901,880
<u>11,301,653</u>	<u>23,059,944</u>
<u>\$11,434,278</u>	<u>\$ 23,961,824</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED OCTOBER 31, 2019  
(with comparative totals for 2018)

Total			Program Services
2018	2019		
\$ 3,211,816	\$ 3,156,908	Salaries	\$ 2,369,246
688,808	1,308,153	Retirement and group insurance	1,014,905
236,461	225,798	Social security	173,223
73,592	86,442	Workers' compensation insurance	75,825
30,591	34,056	Houseparent incentive pay	34,056
<u>4,241,268</u>	<u>4,811,357</u>	Total Salaries and Related Benefits	<u>3,667,255</u>
6,470	6,469	Activities	6,469
21,162	17,736	Allowance & work program	17,736
4,144	1,123	Appreciation events	-
11,328	15,084	Background verification	14,918
8,747	16,709	Board meetings	-
18,601	14,338	Christmas and birthday gifts	14,338
21,974	39,328	Clothing	39,328
28,953	32,769	Cottage outings	32,769
-	1,696	Community/church events	1,696
14,345	11,193	Data communications	9,776
22,826	6,088	Dues and memberships	2,356
106,122	134,370	Education	134,370
-	1,095	Employee moving	1,095
53,021	41,695	Equipment	38,550
101,443	80,002	Event costs	-
1,927	1,592	Family ministries	1,592
25,054	27,762	Farm	27,762
152,660	162,038	Food	162,038
30,628	30,699	Household goods	30,699
195,869	191,674	Insurance	170,706
25,678	46,673	Lawn maintenance	46,673
191,548	220,338	Maintenance	214,571
35,304	35,769	Medical	35,769
13,054	10,330	Miscellaneous	(178)
189	87	Mother's aid	87
49,762	44,919	Office	22,448
9,089	14,851	Personal hygiene	14,851
46,527	40,079	Postage	2,474
108,694	118,278	Printing & publicity	2,239
22,055	27,399	Professional services - legal	25,014
19,843	26,671	Professional services - non legal	8,403
33,465	19,088	Public relations services	-
19,765	32,318	Recreation	32,318
30	-	Rent	-
21,437	27,636	Spiritual enrichment & training	16,657
42,534	46,589	Supplies	46,589
16,792	17,201	Taxes	17,124
64,971	56,987	Telephone	43,850
131,092	132,272	Technology	64,374
120,440	117,877	Travel	94,042
372,251	344,030	Utilities	334,152
68,222	59,537	Vehicle fuel	47,877
41,737	46,379	Vehicle maintenance and repair	39,492
<u>6,521,021</u>	<u>7,130,125</u>	Total Expenses Before Depreciation	<u>5,482,279</u>
<u>588,415</u>	<u>560,795</u>	Depreciation of buildings & equipment	<u>486,787</u>
<u>7,109,436</u>	<u>7,690,920</u>	Total Expenses	<u>\$ 5,969,066</u>
<u>100.0%</u>	<u>100.0%</u>	Percentages	<u>77.6%</u>



Supporting Services		
Management & General	Ministry Advancement	Total
\$ 581,050	\$ 206,612	\$ 787,662
223,035	70,213	293,248
36,360	16,215	52,575
7,222	3,395	10,617
-	-	-
847,667	296,435	1,144,102
-	-	-
-	-	-
-	1,123	1,123
143	23	166
16,709	-	16,709
-	-	-
-	-	-
-	-	-
1,024	393	1,417
3,207	525	3,732
-	-	-
-	-	-
1,322	1,823	3,145
-	80,002	80,002
-	-	-
-	-	-
-	-	-
17,734	3,234	20,968
-	-	-
3,697	2,070	5,767
-	-	-
2,559	7,949	10,508
-	-	-
14,120	8,351	22,471
-	-	-
1,103	36,502	37,605
-	116,039	116,039
2,385	-	2,385
18,268	-	18,268
-	19,088	19,088
-	-	-
-	-	-
8,328	2,651	10,979
-	-	-
77	-	77
8,252	4,885	13,137
22,642	45,256	67,898
10,704	13,131	23,835
6,480	3,398	9,878
9,248	2,412	11,660
5,902	985	6,887
1,001,571	646,275	1,647,846
66,484	7,524	74,008
\$ 1,068,055	\$ 653,799	\$ 1,721,854
13.9%	8.5%	22.4%

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED OCTOBER 31, 2019  
(with comparative totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase in net assets	\$ 1,034,505	\$ 493,932
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Investment (gain) loss	( 433,723)	375,261
Investment (gain) loss on funds held by trustees	( 712,951)	233,594
Depreciation	560,795	588,415
Gifts in-kind	( 54,239)	( 32,000)
Increase in accrued income receivable	( 4,039)	( 8,997)
Increase in prepaid expenses and other assets	( 17,658)	( 37,640)
(Increase) decrease in deposits held by others	( 31,296)	21,940
(Increase) decrease in beneficial interests in trusts	( 36,882)	101,156
Increase (decrease) in accounts payable and accrued liabilities	<u>104,639</u>	<u>( 689,752)</u>
Net cash provided by operating activities	<u>409,151</u>	<u>1,045,909</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	18,440	62,811
Purchases of property and equipment	( 233,081)	( 343,716)
Sale of property	-	43,546
Purchases of investments	( 267,226)	( 721,848)
Proceeds from sales of investments and property held for sale	<u>111,276</u>	<u>126,926</u>
Net cash used in investing activities	<u>( 370,591)</u>	<u>( 832,281)</u>
Net increase in cash and cash equivalents	38,560	213,628
Cash and cash equivalents:		
Beginning of year	<u>2,750,925</u>	<u>2,537,297</u>
End of year	<u>\$ 2,789,485</u>	<u>\$ 2,750,925</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2019  
(with comparative totals for 2018)

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 two 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:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Children's Homes or by the passage of time. Other donor restrictions are 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, 2019  
(with comparative totals for 2018)

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 2018 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 2019.

Investments

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

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, net assets with donor restrictions that are temporary in nature are reclassified to net assets without donor restrictions 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 net assets without donor restriction 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 support without donor restrictions 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 support with donor restrictions. 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, 2019  
(with comparative totals for 2018)

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.

Funds Held in Trust for Others

Consistent with its charter powers and purposes, the Children's Homes, as trustee, holds certain funds totaling \$41,580 and \$66,271 at October 31, 2019 and 2018, 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 K).

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2019  
(with comparative totals for 2018)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pledges

At October 31, 2019, the Children's Homes had no unconditional promises to give. Conditional promises to give at October 31, 2019 and 2018, were \$500,000 and \$600,000, 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 L). 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.

New Accounting Pronouncement

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Children's Homes has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2019  
(with comparative totals for 2018)

B. LIQUIDITY AND AVAILABILITY OF RESOURCES

The table below represents financial assets available for general expenditures within one year at October 31, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 2,789,485
Investments, at fair value	10,150,933
Accrued income receivable	<u>23,251</u>
 Total financial assets	 <u>12,963,669</u>
 Less amounts not available to be used for general expenditures within one year:	
Subject to donor restrictions	698,042
Endowments	4,786,547
Designated for operating reserve by Board	<u>5,054,772</u>
 Financial assets not available to be used within one year	 <u>10,539,361</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 2,424,308</u>

The Children's Homes receives significant support through restricted and unrestricted contributions and must maintain sufficient resources to meet responsibilities to its donors; therefore, these assets are limited to use for donor-restricted purposes. Additionally, the Children's Homes maintains certain other board designated assets that are designated for operating reserves. These assets are limited to use and are not available for general expenditures within the next year. However, the board-designated amounts could be made available, if necessary.

The Children's Homes is also the beneficiary of various perpetual trusts created by donors, the assets of which are not in the possession of the Children's Homes. The Children's Homes has legally enforceable rights or claims to such assets including the right to income therefrom. The Children's Homes has recorded the assets and recognized contribution revenue with donor restrictions at the fair value of its beneficial interest in these perpetual trusts. Distributions received on these perpetual trusts are recorded as income from trusts in the statement of activities. Subsequent changes in fair value of the perpetual trust are recorded as net trust corpus gains or losses in the net assets with donor restrictions classification. The Children's Homes has a policy to structure its financial assets to be available as it general expenditures, liabilities, and other obligations come due.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2019  
(with comparative totals for 2018)

C. INVESTMENTS

Investments at October 31, 2019 and 2018, were as follows:

	Total 2019		Total 2018	
	Market	Cost	Market	Cost
Mutual Funds	\$ 6,111,715	\$5,546,838	\$4,797,674	\$4,627,569
Certificates of Deposit	4,016,689	3,999,000	4,741,628	4,766,000
Insurance Policy	17,015	17,015	16,384	16,384
Stock	5,514	6,603	5,572	6,603
	<u>\$10,150,933</u>	<u>\$9,569,456</u>	<u>\$9,561,258</u>	<u>\$9,416,556</u>

Investments at October 31, 2019 and 2018, for each class of net assets were as follows:

	Total	
	2019	2018
Without donor restrictions	\$ 5,278,267	\$4,740,778
With donor restrictions	4,872,666	4,820,480
	<u>\$10,150,933</u>	<u>\$9,561,258</u>

Investment income, excluding unrealized gains, earned on investments owned by the Children's Homes amounted to \$265,648 and \$383,440 for the years ended October 31, 2019 and 2018, respectively. This income represents yields of 2.8% and 4.2% based on the cost of such investments, and 2.7% and 4.0% based on the market of such investments for fiscal years 2019 and 2018, respectively.

The total return (income yield plus investment gains) on investments owned by the Children's Homes was a gain of 7.3% and .09% based on the cost of such investments, and a gain of 7.1% and .09% based on the market of such investments for fiscal years 2019 and 2018, respectively.



TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2019  
(with comparative totals for 2018)

D. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment at October 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,346,504	\$ 3,346,504
Buildings	13,371,195	13,535,275
Furnishings and equipment	548,255	548,257
Improvements other than buildings	1,512,321	1,421,804
Other machinery and equipment	635,954	620,952
Vehicles	<u>756,258</u>	<u>790,583</u>
	20,170,487	20,263,375
Less accumulated depreciation	<u>(13,630,826)</u>	<u>(13,450,238)</u>
Net investment in property, buildings and equipment	<u>\$ 6,539,661</u>	<u>\$ 6,813,137</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2019  
(with comparative totals for 2018)

E. 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, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 791,583	\$ 1,413,428
Service cost	13,790	12,494
Interest cost	32,616	46,061
Actual benefit disbursements	( 52,646)	( 115,610)
Change in assumptions	3,602	( 78,517)
Actuarial (gain) loss	<u>59,725</u>	<u>( 486,273)</u>
Benefit obligation at the end of year	<u>\$ 848,670</u>	<u>\$ 791,583</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	52,646	115,610
Actual benefit disbursements	<u>( 52,646)</u>	<u>( 115,610)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$ 848,670</u>	<u>\$ 791,583</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$ 848,670</u>	<u>\$ 791,583</u>

The net periodic postretirement benefit costs recognized during the years ended October 31, 2019 and 2018, which are included in salaries and related benefits, are comprised of the following components:

	<u>2019</u>	<u>2018</u>
Service cost (benefits earned during the period)	\$ 13,790	\$12,494
Interest cost on accumulated postretirement benefit obligation	32,616	46,061
Gain to the extent recognized	<u>(37,927)</u>	<u>-</u>
	<u>\$ 8,479</u>	<u>\$58,555</u>

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E. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit costs of \$8,479 and \$58,555 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2019 and 2018, 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,	
	2019	2018
Discount Rate	2.80%	4.26%
Expected Long-Term Health Care cost Increase -		
Initial Rate - Post-65 (Medical/Rx)	3.8% - 5.90%	3.2% - 6.90%
Ultimate Rate - Post-65 (Medical/Rx)	3.8% - 5.25%	3.2% - 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>
2020	\$82,560
2021	49,061
2022	55,770
2023	63,288
2024	82,049
2025 - 2029	335,665

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E. 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, 2019 is as follows:

	Health Care Cost Trend Rate		
	Assumed	Impact (1%)	Impact (+1%)
2018 - 2019 NPPBC Components			
(a) 2018 - 2019 Service Cost	\$ -	\$ -	\$ -
(b) 2018 - 2019 Interest Cost	<u>22,134</u>	<u>( 1,980)</u>	<u>2,283</u>
Aggregate of (a + b)	\$ 22,134	\$( 1,980)	\$ 2,283
APBO as of October 31, 2019	<u>\$555,329</u>	<u>\$(48,430)</u>	<u>\$55,810</u>

F. 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 \$262,665 and \$267,197 during the years ended October 31, 2019 and 2018, respectively.

G. 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 \$27,912 and \$19,684 during the years ended October 31, 2019 and 2018, respectively. The related liability is included in accounts payable and accrued liabilities in the statement of financial position.

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H. 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, 2019 and 2018, 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.

I. NET ASSETS WITHOUT DONOR RESTRICTIONS

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.

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.

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J. NET ASSETS WITH DONOR RESTRICTIONS

Net assets at October 31, 2019 and 2018 have been restricted by the donors as follows:

	<u>2019</u>	<u>2018</u>
Subject to purpose restrictions:		
Program restrictions	\$ 698,042	\$ 530,857
Invested in property	1,724,504	1,724,504
Residual trusts, time restricted	<u>120,161</u>	<u>118,337</u>
Total subject to purpose restrictions	<u>2,542,707</u>	<u>2,373,698</u>
Endowments and perpetual trusts:		
Endowments	4,786,547	4,783,243
Perpetual trusts	<u>16,632,570</u>	<u>15,903,003</u>
Total endowments and perpetual trusts	<u>21,419,117</u>	<u>20,686,246</u>
Total net assets with donor restrictions	<u>\$23,961,824</u>	<u>\$23,059,944</u>

Net Assets Released from Restrictions

During 2019, net assets of \$408,672 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.

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K. BENEFICIAL INTERESTS IN TRUSTS

Beneficial interests in trusts represent funds held and administered by trustees in accordance with the terms of various trust instruments and include 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, 2019 and 2018, the fair values are as follows:

	<u>2019</u>	<u>2018</u>
Residual trusts:		
Children's Homes as trustee	\$ 76,362	\$ 69,570
Held by outside trustees	<u>43,799</u>	<u>48,766</u>
Total residual trusts	<u>120,161</u>	<u>118,336</u>
Perpetual trusts held by outside trustees:		
Tennessee Baptist Foundation as trustee	12,172,855	11,602,268
Other trustees	<u>4,459,715</u>	<u>4,300,735</u>
Total perpetual trusts held by outside trustees	<u>16,632,570</u>	<u>15,903,003</u>
Total beneficial interests in trusts held by trustees	<u>\$16,752,731</u>	<u>\$16,021,339</u>

During 2019 and 2018, the Children's Homes received interest and dividends of \$559,207 and \$513,584, respectively, on funds held in trust.

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L. 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, 2019 and 2018, for the assets and liabilities measured at fair value on a recurring basis:

<u>October 31, 2019</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	\$ 6,111,715	\$ 6,111,715	\$ -	\$ -
Certificates of deposit	4,016,689	4,016,689	-	-
Stock	5,514	5,514	-	-
Insurance policy	<u>17,015</u>	<u>-</u>	<u>-</u>	<u>17,015</u>
	10,150,933	10,133,918	-	17,015

Beneficial interests	16,752,731	-	16,752,731	-
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<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	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	16,021,339	-	16,021,339	-
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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.

M. 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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M. 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 net assets with donor restrictions that are to be maintained permanently is classified as net assets with donor restrictions that are time and/or purpose restricted 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, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$65,476	\$ 4,786,547	\$ 4,852,023
Perpetual trusts held by trustees	-	<u>16,632,570</u>	<u>16,632,570</u>
Total funds	<u>\$65,476</u>	<u>\$21,419,117</u>	<u>\$21,484,593</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$13,389	\$ 4,783,243	\$ 4,796,632
Perpetual trusts held by trustees	-	<u>15,903,003</u>	<u>15,903,003</u>
Total funds	<u>\$13,389</u>	<u>\$20,686,246</u>	<u>\$20,699,635</u>

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M. ENDOWMENT FUNDS - Continued

**Changes in Endowment Net Assets for the years ended October 31, 2019 and 2018**

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
<i>Endowment net assets, October 31, 2017</i>	\$ 31,909	\$ 20,553,403	\$ 20,585,312
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, October 31, 2018</i>	<u>13,389</u>	<u>20,686,246</u>	<u>20,699,635</u>
Investment return:			
Investment income	91,010	-	91,010
Net appreciation (depreciation) (realized and unrealized)	<u>52,087</u>	<u>711,127</u>	<u>763,214</u>
Total investment return	<u>143,097</u>	<u>711,127</u>	<u>854,224</u>
Contributions	<u>-</u>	<u>21,744</u>	<u>21,744</u>
Appropriation of endowment assets for expenditure	<u>( 91,010)</u>	<u>-</u>	<u>( 91,010)</u>
<i>Endowment net assets, October 31, 2019</i>	<u>\$ 65,476</u>	<u>\$ 21,419,117</u>	<u>\$ 21,484,593</u>

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.

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M. ENDOWMENT FUNDS - Continued

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.

N. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 10, 2019, the issuance date of the financial statements, and has determined that there are no subsequent events requiring disclosure.