

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

CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2025 AND 2024

TENNESSEE BAPTIST CHILDREN’S HOMES, INC. AND SUBSIDIARY

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Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Tennessee Baptist Children's Homes, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of October 31, 2025 and 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tennessee Baptist Children's Homes, Inc. and Subsidiary as of October 31, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Management's Responsibility for the Financial Statements

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

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



Auditor's Responsibility

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

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

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

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

Crosslin, PLLC

Nashville, Tennessee
March 2, 2026

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position

| | October 31, | |
|---|----------------------|----------------------|
| | 2025 | 2024 |
| ASSETS: | | |
| Cash and cash equivalents | \$ 2,317,782 | \$ 2,119,079 |
| Accounts receivable | 326,484 | 272,659 |
| Note receivable (Note 6) | 160,000 | 160,000 |
| Prepaid expenses and other assets | 74,574 | 63,369 |
| Funds held in custody for children | 60,569 | 49,616 |
| Deposits held by others | 834,144 | 710,544 |
| Property held for sale | 128 | 159,947 |
| Investments (Note 4) | 25,156,442 | 28,317,481 |
| Property, buildings, and equipment—net (Note 7) | 28,205,791 | 14,145,741 |
| Beneficial interest in trusts held by trustees (Note 8) | 22,607,371 | 21,005,424 |
| | <u>\$ 79,743,285</u> | <u>\$ 67,003,860</u> |
| Total Assets | | |
| LIABILITIES AND NET ASSETS: | | |
| Liabilities: | | |
| Accounts payable | \$ 2,655,571 | \$ 2,531,297 |
| Accrued expenses and other liabilities | 387,446 | 1,121,265 |
| Funds held in custody for children | 60,569 | 49,616 |
| Post-retirement benefit obligation (Note 9) | 618,053 | 621,580 |
| Total liabilities | <u>\$ 3,721,639</u> | <u>\$ 4,323,758</u> |
| Net assets: | | |
| Net assets without donor restrictions | 45,338,513 | 34,278,891 |
| Net assets with donor restrictions: | | |
| Restricted by purpose or time | 2,376,852 | 2,383,538 |
| Restricted in perpetuity | 28,306,281 | 26,017,673 |
| | <u>30,683,133</u> | <u>28,401,211</u> |
| Total net assets | <u>76,021,646</u> | <u>62,680,102</u> |
| Total Liabilities and Net Assets | <u>\$ 79,743,285</u> | <u>\$ 67,003,860</u> |

See notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended October 31, 2025

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|----------------------|
| OPERATING SUPPORT AND REVENUE: | | | |
| Cooperative Program allocation | \$ 1,745,381 | \$ - | \$ 1,745,381 |
| Contributions of financial assets | 4,045,818 | 191,359 | 4,237,177 |
| Bequests | 2,137,654 | 700,466 | 2,838,120 |
| Contributions of non-financial assets | - | 841,635 | 841,635 |
| Investment income | 2,548,848 | 254,349 | 2,803,197 |
| Income from beneficial interest in trusts | 524,653 | 26,498 | 551,151 |
| Gain from sale of property, buildings, and equipment | 7,437,316 | - | 7,437,316 |
| Other income | 144,016 | - | 144,016 |
| Net assets released from restrictions | 1,334,332 | (1,334,332) | - |
| Total Operating Support and Revenue | 19,918,018 | 679,975 | 20,597,993 |
| OPERATING EXPENSES: | | | |
| Program services: | | | |
| Residential care | 4,770,213 | - | 4,770,213 |
| Foster care | 1,788,009 | - | 1,788,009 |
| | 6,558,222 | - | 6,558,222 |
| Supporting activities: | | | |
| Management & general | 1,505,189 | - | 1,505,189 |
| Ministry advancement | 657,694 | - | 657,694 |
| 1911 Corporation | 111,965 | - | 111,965 |
| | 2,274,848 | - | 2,274,848 |
| Total Operating Expenses | 8,833,070 | - | 8,833,070 |
| Change in Net Assets from Operating Activities | 11,084,948 | 679,975 | 11,764,923 |
| NONOPERATING ACTIVITIES: | | | |
| Contributions of beneficial interest in trusts | - | 120,110 | 120,110 |
| Change in value of beneficial interest in trusts | - | 1,481,837 | 1,481,837 |
| Other components of net periodic post retirement costs | (29,826) | - | (29,826) |
| Post-retirement related changes other than net periodic post-retirement costs | 4,500 | - | 4,500 |
| Change in Net Assets from Nonoperating Activities | (25,326) | 1,601,947 | 1,576,621 |
| Change in Net Assets | 11,059,622 | 2,281,922 | 13,341,544 |
| Net Assets, Beginning of Year | 34,278,891 | 28,401,211 | 62,680,102 |
| Net Assets, End of Year | \$ 45,338,513 | \$ 30,683,133 | \$ 76,021,646 |

See notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended October 31, 2024

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|----------------------|
| OPERATING SUPPORT AND REVENUE: | | | |
| Cooperative Program allocation | \$ 1,506,688 | \$ - | \$ 1,506,688 |
| Contributions of financial assets | 7,163,108 | 90,626 | 7,253,734 |
| Bequests | 732,873 | 280,891 | 1,013,764 |
| Contributions of non-financial assets | - | 196,262 | 196,262 |
| Investment income | 5,595,555 | 330,555 | 5,926,110 |
| Income from beneficial interest in trusts | 595,994 | 27,878 | 623,872 |
| Gain from sale of property, buildings, and equipment | 2,526,939 | - | 2,526,939 |
| Other income | 157,599 | - | 157,599 |
| Net assets released from restrictions | 1,389,084 | (1,389,084) | - |
| Total Operating Support and Revenue | 19,667,840 | (462,872) | 19,204,968 |
| OPERATING EXPENSES: | | | |
| Program services: | | | |
| Residential care | 4,542,341 | - | 4,542,341 |
| Foster care | 1,634,469 | - | 1,634,469 |
| | 6,176,810 | - | 6,176,810 |
| Supporting activities: | | | |
| Management & general | 1,474,137 | - | 1,474,137 |
| Ministry advancement | 597,915 | - | 597,915 |
| 1911 Corporation | 834,043 | - | 834,043 |
| | 2,906,095 | - | 2,906,095 |
| Total Operating Expenses | 9,082,905 | - | 9,082,905 |
| Change in Net Assets from Operating Activities | 10,584,935 | (462,872) | 10,122,063 |
| NONOPERATING ACTIVITIES: | | | |
| Contributions of beneficial interest in trusts | - | 26,092 | 26,092 |
| Change in value of beneficial interest in trusts | - | 2,226,538 | 2,226,538 |
| Other components of net periodic post retirement costs | (34,547) | - | (34,547) |
| Post-retirement related changes other than net periodic post-retirement costs | 35,618 | - | 35,618 |
| Change in Net Assets from Nonoperating Activities | 1,071 | 2,252,630 | 2,253,701 |
| Change in Net Assets | 10,586,006 | 1,789,758 | 12,375,764 |
| Net Assets, Beginning of Year | 23,692,885 | 26,611,453 | 50,304,338 |
| Net Assets, End of Year | \$ 34,278,891 | \$ 28,401,211 | \$ 62,680,102 |

See notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended October 31, 2025

| | Program Services | | | Supporting Activities | | | | Total Expenses |
|--|------------------|--------------|------------------------|------------------------|----------------------|------------------|-----------------------------|----------------|
| | Residential Care | Foster Care | Total Program Services | Management and General | Ministry Advancement | 1911 Corporation | Total Supporting Activities | |
| Payroll and related costs | \$ 2,652,086 | \$ 1,343,512 | \$ 3,995,598 | \$ 1,214,948 | \$ 388,510 | \$ - | \$ 1,603,458 | \$ 5,599,056 |
| Activities, trips, and camps | 3,020 | 3,120 | 6,140 | - | - | - | - | 6,140 |
| Appreciation expenses | 2,037 | 845 | 2,882 | 1,174 | 6,652 | - | 7,826 | 10,708 |
| Allowance and work program | 16,220 | - | 16,220 | - | - | - | - | 16,220 |
| Background verification | 1,278 | 14,894 | 16,172 | 143 | 38 | - | 181 | 16,353 |
| Board meetings | - | - | - | 9,801 | - | - | 9,801 | 9,801 |
| Christmas supplies & gift expenses | 8,380 | - | 8,380 | - | - | - | - | 8,380 |
| Clothing | 29,942 | - | 29,942 | - | - | - | - | 29,942 |
| Cottage outings and entertainment | 31,165 | - | 31,165 | - | - | - | - | 31,165 |
| Dues and memberships | 2,420 | 2,925 | 5,345 | 2,379 | 96 | - | 2,475 | 7,820 |
| Education | 126,643 | - | 126,643 | - | - | - | - | 126,643 |
| Equipment | 298,447 | 14,016 | 312,463 | 1,318 | 760 | - | 2,078 | 314,541 |
| Family Ministries | - | 5,206 | 5,206 | - | - | - | - | 5,206 |
| Farm supplies & equipment | 43,706 | - | 43,706 | - | - | - | - | 43,706 |
| Food | 151,602 | 171 | 151,773 | - | - | - | - | 151,773 |
| Household goods | 22,295 | 1,250 | 23,545 | - | - | - | - | 23,545 |
| Insurance-general | 209,240 | 48,962 | 258,202 | 51,010 | 10,065 | - | 61,075 | 319,277 |
| Maintenance | 184,022 | 45,253 | 229,275 | 11,525 | 3,565 | - | 15,090 | 244,365 |
| Medical | 60,502 | - | 60,502 | - | - | - | - | 60,502 |
| Miscellaneous | 64 | - | 64 | 3,563 | 19,360 | - | 22,923 | 22,987 |
| Office | 13,899 | 6,519 | 20,418 | 12,648 | 3,325 | 20 | 15,993 | 36,411 |
| Personal hygiene supplies | 11,610 | 17 | 11,627 | - | - | - | - | 11,627 |
| Printing and publicity | - | - | - | - | 77,670 | - | 77,670 | 77,670 |
| Postage | 1,157 | 108 | 1,265 | 1,560 | 36,315 | - | 37,875 | 39,140 |
| Professional services | 1,410 | 110 | 1,520 | 18,671 | - | 1,250 | 19,921 | 21,441 |
| Public relations services | - | - | - | - | 125 | - | 125 | 125 |
| Recreation supplies | 25,491 | 960 | 26,451 | - | - | - | - | 26,451 |
| Rent | - | 53,103 | 53,103 | - | - | - | - | 53,103 |
| Training | 17,576 | 12,116 | 29,692 | 6,694 | 1,371 | - | 8,065 | 37,757 |
| Supplies | 24,470 | 284 | 24,754 | - | - | - | - | 24,754 |
| Taxes | 20,820 | - | 20,820 | 131 | - | 110,695 | 110,826 | 131,646 |
| Technology | 56,805 | 40,082 | 96,887 | 57,169 | 90,168 | - | 147,337 | 244,224 |
| Travel | 7,108 | 108,148 | 115,256 | 12,418 | 10,859 | - | 23,277 | 138,533 |
| Utilities | 305,020 | 55,293 | 360,313 | 14,952 | 6,260 | - | 21,212 | 381,525 |
| Vehicle maintenance | 76,159 | 5,992 | 82,151 | 13,579 | 1,711 | - | 15,290 | 97,441 |
| Total before depreciation | 4,404,594 | 1,762,886 | 6,167,480 | 1,433,683 | 656,850 | 111,965 | 2,202,498 | 8,369,978 |
| Depreciation | 365,619 | 25,123 | 390,742 | 71,506 | 844 | - | 72,350 | 463,092 |
| Total operating expenses | 4,770,213 | 1,788,009 | 6,558,222 | 1,505,189 | 657,694 | 111,965 | 2,274,848 | 8,833,070 |
| Other components of net periodic post-retirement costs | 17,062 | 639 | 17,701 | 10,494 | 1,631 | - | 12,125 | 29,826 |
| Total expenses | \$ 4,787,275 | \$ 1,788,648 | \$ 6,575,923 | \$ 1,515,683 | \$ 659,325 | \$ 111,965 | \$ 2,286,973 | \$ 8,862,896 |

See notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended October 31, 2024

| | Program Services | | | Supporting Activities | | | Total Supporting Activities | Total Expenses |
|---|---------------------|----------------|------------------------------|------------------------------|-------------------------|---------------------|-----------------------------------|-------------------|
| | Residential Care | Foster Care | Total Program Services | Management and General | Ministry Advancement | 1911 Corporation | | |
| Payroll and related costs | \$ 2,708,476 | \$ 1,223,798 | \$ 3,932,274 | \$ 1,226,689 | \$ 354,227 | \$ - | \$ 1,580,916 | \$ 5,513,190 |
| Activities, trips, and camps | 3,712 | 1,932 | 5,644 | - | - | - | - | 5,644 |
| Appreciation expenses | 5,414 | 1,076 | 6,490 | 1,941 | 4,167 | - | 6,108 | 12,598 |
| Allowance and work program | 17,668 | - | 17,668 | - | - | - | - | 17,668 |
| Background verification | 986 | 14,032 | 15,018 | 2 | - | - | 2 | 15,020 |
| Board meetings | - | - | - | 13,424 | - | - | 13,424 | 13,424 |
| Christmas supplies & gift expenses | 8,532 | - | 8,532 | - | - | - | - | 8,532 |
| Clothing | 29,426 | - | 29,426 | - | - | - | - | 29,426 |
| Cottage outings and entertainment | 35,398 | - | 35,398 | - | - | - | - | 35,398 |
| Dues and memberships | 5,688 | 4,671 | 10,359 | 2,868 | 1,076 | - | 3,944 | 14,303 |
| Education | 104,409 | - | 104,409 | - | - | - | - | 104,409 |
| Equipment | 31,800 | 10,736 | 42,536 | - | - | - | - | 42,536 |
| Family Ministries | - | 5,382 | 5,382 | - | - | - | - | 5,382 |
| Farm supplies & equipment | 41,892 | - | 41,892 | - | - | - | - | 41,892 |
| Food | 172,737 | 164 | 172,901 | - | - | - | - | 172,901 |
| Household goods | 17,746 | 166 | 17,912 | - | - | - | - | 17,912 |
| Insurance—general | 185,396 | 45,903 | 231,299 | 44,174 | 8,417 | - | 52,591 | 283,890 |
| Maintenance | 190,421 | 46,108 | 236,529 | 7,940 | 2,719 | - | 10,659 | 247,188 |
| Medical | 85,044 | - | 85,044 | - | - | - | - | 85,044 |
| Miscellaneous | 50,135 | - | 50,135 | 946 | 20,361 | - | 21,307 | 71,442 |
| Office | 11,855 | 9,062 | 20,917 | 12,926 | 10,580 | 65 | 23,571 | 44,488 |
| Personal hygiene supplies | 10,933 | 40 | 10,973 | - | - | - | - | 10,973 |
| Printing and publicity | - | 124 | 124 | - | 79,228 | - | 79,228 | 79,352 |
| Postage | 1,215 | 73 | 1,288 | 1,476 | 24,681 | - | 26,157 | 27,445 |
| Professional services | 1,600 | - | 1,600 | 6,315 | 100 | 1,000 | 7,415 | 9,015 |
| Public relations services | - | - | - | - | 21,650 | - | 21,650 | 21,650 |
| Recreation supplies | 22,501 | - | 22,501 | - | - | - | - | 22,501 |
| Rent | - | 44,502 | 44,502 | - | - | - | - | 44,502 |
| Training | 19,901 | 8,842 | 28,743 | 5,487 | 2,463 | - | 7,950 | 36,693 |
| Supplies | 40,366 | - | 40,366 | - | - | - | - | 40,366 |
| Taxes | 18,014 | - | 18,014 | - | - | 832,978 | 832,978 | 850,992 |
| Technology | 32,472 | 27,960 | 60,432 | 46,086 | 50,714 | - | 96,800 | 157,232 |
| Travel | 3,781 | 107,074 | 110,855 | 7,133 | 8,303 | - | 15,436 | 126,291 |
| Utilities | 252,971 | 52,087 | 305,058 | 18,914 | 7,060 | - | 25,974 | 331,032 |
| Vehicle maintenance | 80,921 | 7,243 | 88,164 | 19,472 | 1,325 | - | 20,797 | 108,961 |
| Total before depreciation | 4,191,410 | 1,610,975 | 5,802,385 | 1,415,793 | 597,071 | 834,043 | 2,846,907 | 8,649,292 |
| Depreciation | 350,931 | 23,494 | 374,425 | 58,344 | 844 | - | 59,188 | 433,613 |
| Total operating expenses | 4,542,341 | 1,634,469 | 6,176,810 | 1,474,137 | 597,915 | 834,043 | 2,906,095 | 9,082,905 |
| Other components of net periodic post-retirement costs | 17,860 | 506 | 18,366 | 13,851 | 2,330 | - | 16,181 | 34,547 |
| Total expenses | \$ 4,560,201 | \$ 1,634,975 | \$ 6,195,176 | \$ 1,487,988 | \$ 600,245 | \$ 834,043 | \$ 2,922,276 | \$ 9,117,452 |

See notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

| | Year Ended October 31, | |
|---|------------------------|---------------|
| | 2025 | 2024 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 13,341,544 | \$ 12,375,764 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 463,092 | 433,613 |
| Gain on disposal of property, buildings and equipment | (7,437,316) | (2,526,939) |
| Investment gain | (1,894,059) | (5,033,194) |
| Change in value of beneficial interest in trusts | (1,481,837) | (2,226,538) |
| Decrease in note receivable | - | 3,840,000 |
| Donated property, buildings, and equipment | 624,000 | - |
| Contributions received for long-term purposes | (703,190) | (317,748) |
| Contributions of beneficial interest in trusts held by trustees | (120,110) | (26,092) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (53,825) | 22,188 |
| Prepaid expenses and other assets | (11,205) | 109,821 |
| Deposits held by others | (123,600) | (120,905) |
| Accounts payable | 124,274 | 1,547,861 |
| Accrued expenses and other liabilities | (733,819) | 836,283 |
| Post retirement benefit obligation | (3,527) | (16,200) |
| Net Cash Provided by Operating Activities | 1,990,422 | 8,897,914 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (6,734,373) | (7,925,549) |
| Proceeds from sales of investments | 11,789,471 | 5,011,323 |
| Proceeds from sale of property, buildings, and equipment | 7,620,829 | 3,336,816 |
| Purchases of property, buildings, and equipment | (15,170,836) | (8,034,456) |
| Net Cash Used by Investing Activities | (2,494,909) | (7,611,866) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Contributions received for long-term purposes | 703,190 | 317,748 |
| Net Cash Provided by Financing Activities | 703,190 | 317,748 |
| Net Change in Cash and Cash Equivalents | 198,703 | 1,603,796 |
| Cash and Cash Equivalents, Beginning of Year | 2,119,079 | 515,283 |
| Cash and Cash Equivalents, End of Year | \$ 2,317,782 | \$ 2,119,079 |

See notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

1. NATURE OF ORGANIZATION:

The Tennessee Baptist Children's Homes, Inc. (TBCH), is an entity of the Tennessee Baptist Convention that provides free Christ-centered, nurturing homes for children in hard places across Tennessee.

TBCH's Residential Care program provides on-campus Christ-centered homes for children who are not in state custody and whose families cannot provide the care they need. Christian couples serve as houseparents in these family-style homes for up to eight resident children, providing a safe environment in which children can thrive and be guided by biblical principles and direction.

Through TBCH's George Shinn Foster Care Program, the Children's Homes partners with Tennessee's Department of Children's Services to provide certified foster families and quality case management for children in state custody. TBCH provides these services at no cost to the State so that evangelical Christian couples may be carefully selected by TBCH to serve as foster parents. This allows children placed in these homes to be cared for physically as well as spiritually. This program includes training, support, direction, and advocacy for these homes by qualified and dedicated TBCH Foster Care Case Managers.

TBCH's primary sources of support are contributions from churches (both directly and through the Cooperative Program of the Tennessee Baptist Convention). TBCH has received a determination letter that it is generally exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (Code) and comparable state law and is classified as a publicly supported organization, which is not a private foundation, under section 509(a)(1) of the Code. However, income from certain activities not directly related to TBCH's tax-exempt purpose is subject to taxation as unrelated business income. TBCH has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the financial statements regarding the *Income Tax* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). TBCH does not have any outstanding interest or penalties, and none have been recorded in the statement of activities for the years ended October 31, 2025 and 2024.

Effective February 2022, TBCH established 1911 Corporation (1911), a for-profit domestic corporation, to support the development of the TBCH Brentwood campus. 1911 issued 1,000 common shares, all of which are held by TBCH. 1911 has been consolidated in the accompanying consolidated financial statements.

In February 2023, 1911 Corporation and its joint venture partner formed Eastman's Preserve, a Tennessee general partnership whose purpose is to purchase, own, develop, manage and sell certain property. 1911 owns 1% of its partnership interest, however, is entitled to 50% of the partnership cash distributions and accounts for the investment using the equity method of accounting. See Note 5.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the statements to the reader.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the operations of TBCH and 1911, hereinafter referred to as TBCH. All significant intercompany transactions and balances have been eliminated from the consolidated financial statements.

ESTIMATES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and deposits in banks. Cash equivalents also include, when applicable, short-term highly liquid debt securities that are both readily convertible to cash and have an original maturity of three months or less. TBCH maintains cash and cash equivalents in financial institutions which may, at times, exceed federally insured or protected limits. Deposits in excess of federally insured and protected limits were \$2,067,723 and \$1,619,079 at October 31, 2025 and 2024, respectively. TBCH has not experienced any losses on such accounts.

ACCOUNTS RECEIVABLE

Accounts receivable includes accrued interest income as well as outstanding Cooperative Program distributions from the Tennessee Baptist Convention, of which TBCH has an unconditional right to receive. Based upon past experience, management believes that all accounts receivable are fully collectible. Therefore, no allowance for doubtful accounts is recorded in the accompanying financial statements.

INVESTMENTS

Investments in stocks, mutual funds, and certificates of deposit are stated at fair value based upon quoted market prices. Other investments include insurance policies carried at cash surrender value. Donated investments are recorded at market value at the date of donation and thereafter carried in conformity with the stated policy.

Interest and dividend income and the realized and unrealized gain or loss on investments are reported in the statement of activities as investment income without donor restrictions unless a donor or law restricts its use for a period of time or in perpetuity.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY, BUILDINGS, AND EQUIPMENT

Property, plant, and equipment are recorded at historical cost. Donated plant assets are recorded at fair market value determined at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 5 to 40 years. TBCH capitalizes all purchases with a cost greater than \$5,000 and an expected useful life greater than one year.

BENEFICIAL INTEREST IN TRUSTS HELD BY TRUSTEES

Beneficial interest 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 in the form of annual distributions, which are recorded as income from beneficial interest in trusts on the statements of activities.

CLASSES OF NET ASSETS

The financial statements report amounts separately by class of net assets:

Net assets without donor restrictions are not subject to donor-imposed stipulations, may be designated for specific purposes by action of TBCH's board of trustees, may otherwise be limited by contractual agreements with outside parties, or invested in property and equipment.

Net assets with donor restrictions are stipulated by donors for specific operating purposes or the acquisition of property and equipment, are time-restricted, or are required by donors to be held in perpetuity with investment return used for operations and other restricted purposes.

REVENUES, EXPENSES, AND RECLASSIFICATIONS

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to TBCH. Conditional promises to give with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

TBCH reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUES, EXPENSES, AND RECLASSIFICATIONS, continued

TBCH 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 and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, TBCH reports expirations of donor restrictions when donated or acquired assets have been placed in service.

Contributions of non-financial assets are recognized at fair value at the date of the gift. Valuation techniques consist of:

| <u>Non-financial contributions category</u> | <u>Valuation</u> |
|---|---|
| Labor | Cost charged to a customer for the service provided in a normal transaction |
| Tuition | Tuition rate for the same level of student at the educational institution providing the service |
| Office space | Similar properties available in commercial real estate listings |
| Food and produce | \$20 per plastic bag and \$30 per paper bag |
| Household goods, clothing, and supplies | Retail prices of identical or similar products or a reduced rate if the item is used |
| Property, building, and equipment | Standard industry pricing for similar or identical assets |
| Other | Standard industry pricing for similar or identical products |

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUES, EXPENSES, AND RECLASSIFICATIONS, continued

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the various program services and supporting activities are summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Salaries, benefits and payroll taxes are allocated to the functions where time and effort are expended. Depreciation and other facility-related expenses are allocated based upon an analysis of usage of space. All other natural classifications presented in the statements of functional expenses are allocated based upon an analysis of the specific activities.

OPERATING AND NONOPERATING ACTIVITIES

The statements of activities presents the changes in net assets of TBCH from both operating activities and nonoperating activities. Operating revenues and expenses relate primarily to program services provided by TBCH. The portion of investment return appropriated for operations on long-term investments held for endowments and similar purposes under TBCH's total return spending policy is considered operating revenue. Beneficial interest in trusts activity is not considered to be operating.

Nonoperating activities consist primarily of (a) other components of net periodic post-retirement costs, (b) post-retirement related changes other than net periodic post-retirement costs, (c) contributions of beneficial interest in trusts, and (d) the change in value of beneficial interest in trusts.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

3. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following reflects TBCH's financial assets as of October 31, 2025 and 2024, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. TBCH considers general expenditures to include all expenditures relating to its ongoing program activities relating to residential and foster care. Financial assets are considered unavailable when liquid or not convertible to cash within one year.

| | October 31, | |
|---|----------------------|----------------------|
| | 2025 | 2024 |
| Financial assets: | | |
| Cash and cash equivalents | \$ 2,317,782 | \$ 2,119,079 |
| Accounts receivable | 326,484 | 272,659 |
| Note receivable | 160,000 | 160,000 |
| Investments | 25,156,442 | 28,317,481 |
| Financial assets, at year-end | <u>27,960,708</u> | <u>30,869,219</u> |
| Less those unavailable for general expenditure within one year due to: | | |
| Contractual or donor-imposed restrictions: | | |
| Capital improvement contracts | (6,352,000) | (13,151,000) |
| Restricted by donors with purpose or time | (127,514) | (110,727) |
| Perpetual endowments and accumulated earnings subject to appropriation beyond one year | <u>(6,003,475)</u> | <u>(5,285,708)</u> |
| | <u>(12,482,989)</u> | <u>(18,547,435)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 15,477,719</u> | <u>\$ 12,321,784</u> |

TBCH is also the beneficiary of various perpetual trusts created by donors, the assets of which are not in TBCH's possession. TBCH has legally enforceable rights or claims to the annual distributions from these assets, which are recorded as income from beneficial interests in trusts on the statements of activities. TBCH has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

4. INVESTMENTS:

Investments consist of:

| | October 31, | |
|--|----------------------|----------------------|
| | 2025 | 2024 |
| Held at fair value: | | |
| Mutual funds | \$ 11,100,783 | \$ 15,349,732 |
| Certificates of deposit | 5,329,078 | 4,212,295 |
| Money market funds | 7,753,214 | 8,405,741 |
| Interest in pooled funds of the Southern Baptist Foundation | 342,308 | 322,452 |
| Stocks | 7,375 | 5,983 |
| | <u>24,532,758</u> | <u>28,296,203</u> |
| Held at cost: | | |
| Cash and cash equivalents | 31,889 | 1,155 |
| Cash surrender value of life insurance | 20,706 | 20,123 |
| Partnership interest | 571,089 | - |
| | <u>623,684</u> | <u>21,278</u> |
| | <u>\$ 25,156,442</u> | <u>\$ 28,317,481</u> |

Investments are held for the following purposes:

| | October 31, | |
|---------------------|----------------------|----------------------|
| | 2025 | 2024 |
| Held for operations | \$ 19,152,967 | \$ 23,031,773 |
| Held for endowments | 6,003,475 | 5,285,708 |
| | <u>\$ 25,156,442</u> | <u>\$ 28,317,481</u> |

Investment income consists of:

| | Year Ended October 31, | |
|-------------------------------------|------------------------|---------------------|
| | 2025 | 2024 |
| Dividends and interest, net of fees | \$ 909,138 | \$ 892,916 |
| Realized gains | 680,620 | 3,411,947 |
| Unrealized gains | 1,213,439 | 1,621,247 |
| | <u>\$ 2,803,197</u> | <u>\$ 5,926,110</u> |

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

5. INVESTMENT IN AFFILIATE

1911 Corporation owns 1% of Eastman's Preserve, a Tennessee general partnership, however is entitled to 50% of the partnership's cash distributions.

Eastman's Preserve was formed in February 2023 to purchase, own, develop, manage and sell certain property.

Summary financial data with respect to Eastman's Preserve as of and for the year ended October 31, 2025 and October 31, 2024:

| | <u>Year Ended October 31,</u> | |
|---------------------------------------|-------------------------------|---------------------|
| | <u>2025</u> | <u>2024</u> |
| <u>Balance sheet</u> | | |
| Assets: | | |
| Cash | \$ 346,867 | \$ 608,818 |
| Deposits | 5,078 | 10,000 |
| Land | 281,912 | 281,912 |
| Construction in progress | 668,826 | 396,247 |
| Other assets | - | 126,962 |
| Total assets | <u>1,302,683</u> | <u>1,423,939</u> |
| Liabilities: | | |
| Accrued Interest Payable | \$ 30 | \$ - |
| Notes payable | 160,000 | 160,000 |
| Total Liabilities | <u>\$ 160,030</u> | <u>\$ 160,000</u> |
| Partnership surplus | <u>\$ 1,142,653</u> | <u>\$ 1,263,939</u> |
| <u>Statement of operations</u> | | |
| Operating revenue | <u>\$ -</u> | <u>\$ -</u> |
| Operating expenses: | | |
| Property tax | - | 13,780 |
| Total operating expenses | <u>\$ -</u> | <u>\$ 13,780</u> |
| Net operating loss | \$ - | \$ (13,780) |
| Nonoperating activities | | |
| Bank interest income | \$ 657 | \$ 328 |
| Asset gain - long term | (121,883) | 7,993,174 |
| Bank fees | (60) | (25) |
| Interest expense | - | - |
| Total net non-operating (loss) income | <u>\$ (121,286)</u> | <u>\$ 7,993,477</u> |
| Total net (loss) income | <u>\$ (121,286)</u> | <u>\$ 7,979,697</u> |

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

6. NOTE RECEIVABLE

In February 2023, TBCH obtained a note receivable in the amount of \$4,000,000 in connection with the sale of certain property. The note receivable is non-interest bearing and is due in installments of \$160,000 as plots of the property are sold by the purchaser, Eastman's Preserve. The balance is \$160,000 as of October 31, 2025 and 2024. Management of TBCH currently expects collection of the note receivable in full within nine months of the opinion date. The note receivable is secured by the property.

7. PROPERTY, BUILDINGS, AND EQUIPMENT—NET:

Property, buildings, and equipment—net consists of:

| | October 31, | |
|-----------------------------------|---------------|---------------|
| | 2025 | 2024 |
| Land | \$ 2,630,014 | \$ 2,630,014 |
| Buildings | 9,934,074 | 9,929,185 |
| Improvements other than buildings | 1,229,899 | 1,465,682 |
| Furnishings and equipment | 555,899 | 495,618 |
| Other machinery and equipment | 673,953 | 683,754 |
| Vehicles | 824,112 | 820,117 |
| Construction in progress | 22,950,226 | 8,788,354 |
| | 38,798,177 | 24,812,724 |
| Less accumulated depreciation | (10,592,386) | (10,666,983) |
| | \$ 28,205,791 | \$ 14,145,741 |

Construction in progress consists of buildings and site improvements related to TBCH's Firm Foundations Project. The goal of the Firm Foundations Project is to replace TBCH's aging facilities with new campus homes, including a private bedroom and bathroom for each child. The Firm Foundations Project is designed to be implemented in multiple phases at each campus.

Construction in progress at Brentwood totals \$17,701,192 and \$7,701,646 as of October 31, 2025 and 2024, respectively. The estimated cost to complete Phase 1, Phase 2A and Phase 2B at Brentwood as of October 31, 2025, is \$2,053,547 with completion of all phases expected in spring of 2026.

Construction in progress at Millington totals \$4,515,287 and \$946,336 as of October 31, 2025 and 2024, respectively. The estimated cost to complete Phase 1 at Millington as of October 31, 2025, is \$201,322 with completion of Phase 1 expected in January, 2026.

Construction in progress at Chattanooga totals \$733,747 and \$140,372 as of October 31, 2025 and 2024, respectively. The estimated cost to complete Phase 1 at Chattanooga as of October 31, 2025, is \$11,150,000. The completion date of Phase 1 is undeterminable as of October 31, 2025.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

7. PROPERTY, BUILDINGS, AND EQUIPMENT—NET. continued:

Land includes property held for use with a fair value at donation of \$1,705,168 received with a donor restriction that requires any sales proceeds to be used in Shelby County Tennessee.

TBCH has property held for sale with a basis totaling \$128 and \$159,947 as of October 31, 2025 and 2024, respectively. Property held for sale as of October 31, 2025 consist of mineral rights in Fayette, Alabama. Property held for sale as of October 31, 2024 is in Hamilton County, Tennessee and consists of land and buildings used for residential care.

8. BENEFICIAL INTEREST IN TRUSTS HELD BY TRUSTEES:

TBCH records the following beneficial interest in trusts at their fair value as follows:

| | October 31, | |
|--|---------------|---------------|
| | 2025 | 2024 |
| Residual trusts | \$ 174,200 | \$ 157,670 |
| Perpetual trusts held by outside trustees: | | |
| Tennessee Baptist Foundation as trustee | 17,598,004 | 16,340,590 |
| Other trustees | 4,835,167 | 4,507,164 |
| | 22,433,171 | 20,847,754 |
| | \$ 22,607,371 | \$ 21,005,424 |

9. EMPLOYEE BENEFITS:

DEFINED BENEFIT PLAN

TBCH provides retirement severance benefits to all retiring employees. In addition, TBCH provides post-retirement health care and term life insurance benefits to certain retired TBCH employees. These benefits will not be extended to current or future employees. In calculating the various components of the requirements, TBCH has assumed most employees will retire at age sixty-five. Life expectancies for each employee, as well as expected actual cost of premiums, were projected by the insurance provider. TBCH is financing the post-retirement benefits on a pay-as-you-go basis.

A summary of the post-retirement benefit obligation associated with TBCH's defined benefit plan is as follows:

| | October 31, | |
|------------------------------------|-------------|------------|
| | 2025 | 2024 |
| Inactive retired participants | \$ 279,536 | \$ 322,941 |
| Active fully eligible participants | 88,344 | 88,004 |
| Other active participants | 250,173 | 210,635 |
| | \$ 618,053 | \$ 621,580 |

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

9. EMPLOYEE BENEFITS, continued:

DEFINED BENEFIT PLAN, continued

The following tables provide a reconciliation of the changes in the post-retirement benefit obligation and the assumptions used in the actuarial calculations.

| | | |
|--|-------------------|-------------------|
| Benefit obligation at beginning of year: | \$ 621,580 | \$ 637,780 |
| Net periodic post-retirement costs | 47,655 | 50,546 |
| Post-retirement related changes other than net periodic post-retirement cost | (4,500) | (35,618) |
| Benefits paid | <u>(46,682)</u> | <u>(31,128)</u> |
| Post-retirement benefit obligation at end of year | <u>\$ 618,053</u> | <u>\$ 621,580</u> |
| Net periodic post-retirement cost, included in functional expenses: | | |
| Service cost | <u>\$ 17,829</u> | <u>\$ 15,999</u> |
| Interest costs | <u>29,826</u> | <u>34,547</u> |
| Net periodic post-retirement cost other than service cost | <u>29,826</u> | <u>34,547</u> |
| Net periodic post-retirement costs | <u>\$ 47,655</u> | <u>\$ 50,546</u> |

Net periodic post-retirement cost other than service cost is reported as other components of net periodic post-retirement cost on the statement of activities.

Post-retirement related changes other than net periodic post-retirement cost, included in nonoperating activities, are as follows:

| | October 31, | |
|--------------------------------------|-------------------|--------------------|
| | <u>2025</u> | <u>2024</u> |
| Change in discount rate assumption | \$ 7,589 | \$ 27,888 |
| Change in other economic assumptions | 4,336 | 1,434 |
| Change in demographic assumptions | (110) | 298 |
| Actuarial (gain) | <u>(16,315)</u> | <u>(65,238)</u> |
| Total net (gain) | <u>\$ (4,500)</u> | <u>\$ (35,618)</u> |

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

9. EMPLOYEE BENEFITS, continued:

DEFINED BENEFIT PLAN, continued

Assumptions are made using the weighted-average and assumed annual increases are as follows:

| | October 31, | |
|---|-------------|-------------|
| | 2025 | 2024 |
| Discount rate | 4.92% | 5.14% |
| Projected health care trend rate (Post-65 Medical/Rx) | 5.00%/6.60% | 4.40%/6.50% |
| Ultimate rate—Post-65 (Medical/Rx) | 4.37%/4.87% | 4.40%/4.87% |
| Year ultimate trend rate is achieved | 2033 | 2032 |
| Future compensation levels Year 1 | 3.00% | 3.00% |
| Future compensation levels Year 2+ | 3.00% | 3.00% |

The mortality basis for the years ended October 31, 2025 and 2024, is based upon Pri-2012 Total Dataset (generational projection using MP-2021GFR)

Future benefits are expected to be paid as follows:

| Years Ending October 31, | Amounts |
|--------------------------|-------------------|
| 2026 | \$ 115,899 |
| 2027 | 92,142 |
| 2028 | 39,550 |
| 2029 | 106,827 |
| 2030 | 24,602 |
| 2031-2035 | 247,829 |
| | <u>\$ 626,849</u> |

RETIREMENT PLAN

TBCH 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. TBCH 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.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

9. EMPLOYEE BENEFITS, continued:

RETIREMENT PLAN, continued:

On January 1, 2025, the Plan was restated grandfathering current employees into the above provisions, unless they chose to make a one-time election to move to the restated Plan's Employer Contribution provisions. Employees hired after December 31, 2024, are eligible to begin participation in the Plan's matching Employer Contributions on the first day of the month following the month in which they meet the Plan's eligibility requirements. TBCH will match employee contributions of 5% or less in an amount equal to 200% for houseparents and 100% for all other employees. Employee contributions that exceed 5% will not be matched. TBCH will begin non-matching contributions in an amount equal to 5% of the employee's base pay following 3 years of completed eligible service. For employees hired after December 31, 2025. Employer Contributions are vested as follows, 33% after 1 year of completed service, 66% after 2 years of completed service, and 100% after 3 or more years of completed service. Automatic enrollment and ROTH Elective Deferrals were added to the Plan at restatement.

There is no unfunded value of accrued plan benefits. Retirement expense totaled \$348,376 and \$301,253 during the years ended October 31, 2025 and 2024, respectively.

TBCH 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 \$40,198 and \$40,978 during the years ended October 31, 2025 and 2024, respectively. The related liability is included in accrued expenses and other liabilities on the statements of financial position.

10. NET ASSETS:

Net assets consist of:

| | October 31, | |
|--|----------------------|----------------------|
| | 2025 | 2024 |
| Net assets without donor restrictions: | | |
| Undesignated net assets | \$ 45,338,513 | \$ 34,278,891 |
| Net assets with donor restrictions: | | |
| Restricted by purpose or time: | | |
| Program restrictions | 2,072,286 | 2,110,078 |
| Accumulated earnings on endowments | 130,366 | 115,790 |
| Residual trusts, time restricted | 174,200 | 157,670 |
| | <u>2,376,852</u> | <u>2,383,538</u> |
| Restricted in perpetuity: | | |
| Endowment funds | 5,873,109 | 5,169,919 |
| Perpetual trusts | 22,433,172 | 20,847,754 |
| | <u>28,306,281</u> | <u>26,017,673</u> |
| Total net assets with donor restrictions | <u>30,683,133</u> | <u>28,401,211</u> |
| Total net assets | <u>\$ 76,021,646</u> | <u>\$ 62,680,102</u> |

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

11. ENDOWMENT FUNDS:

TBCH's 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.

The board of trustees of TBCH has interpreted the State of Tennessee's Uniform Prudent Management of Institutional Funds Act (SUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, TBCH classifies as net assets with donor restrictions in perpetuity (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 in perpetuity is classified as net assets with donor restrictions by purpose or time until those amounts are appropriated for expenditure by TBCH in a manner consistent with the standard of prudence prescribed by SUPMIFA.

In accordance with SUPMIFA, TBCH 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 TBCH and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of TBCH
7. The investment policies of TBCH

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

11. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of October 31, 2025

| | Without Donor Restrictions | With Donor Restrictions | | Total |
|------------------------|-------------------------------|-------------------------|------------------|--------------|
| | | Accumulated Gains | Original Gift | |
| Donor-restricted funds | \$ - | \$ 130,366 | \$ 5,873,109 | \$ 6,003,475 |

Changes in endowment net assets for year ended October 31, 2025:

| | With Donor Restrictions | | Total |
|---|-------------------------|------------------|--------------|
| | Accumulated Gains | Original Gift | |
| Endowment net assets, beginning of year | \$ 115,789 | \$ 5,169,919 | \$ 5,285,708 |
| Investment return: | | | |
| Dividend and interest income | 239,773 | - | 239,773 |
| Net gains (realized and unrealized) | 14,576 | - | 14,576 |
| | 254,349 | - | 254,349 |
| Other changes: | | | |
| Contributions | - | 703,190 | 703,190 |
| Amounts appropriated for expenditure | (239,772) | - | (239,772) |
| | (239,772) | 703,190 | 463,418 |
| Endowment net assets, end of year | \$ 130,366 | \$ 5,873,109 | \$ 6,003,475 |

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

11. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of October 31, 2024:

| | Without Donor Restrictions | With Donor Restrictions | | Total |
|------------------------|-------------------------------|-------------------------|------------------|--------------|
| | | Accumulated Gains | Original Gift | |
| Donor-restricted funds | \$ - | \$ 115,789 | \$ 5,169,919 | \$ 5,285,708 |

Changes in endowment net assets for year ended October 31, 2024:

| | With Donor Restrictions | | Total |
|---|-------------------------|------------------|----------------|
| | Accumulated Gains | Original Gift | |
| Endowment net assets, beginning of year | \$ 11,436 | \$ 4,852,171 | \$ 4,863,607 |
| Investment return: | | | |
| Dividend and interest income | 226,201 | - | 226,201 |
| Net losses (realized and unrealized) | 104,353 | - | 104,353 |
| | <u>330,554</u> | <u>-</u> | <u>330,554</u> |
| Other changes: | | | |
| Contributions | - | 317,748 | 317,748 |
| Amounts appropriated for expenditure | (226,201) | - | (226,201) |
| | <u>(226,201)</u> | <u>317,748</u> | <u>91,547</u> |
| Endowment net assets, end of year | \$ 115,789 | \$ 5,169,919 | \$ 5,285,708 |

Return objectives and risk parameters:

TBCH's investment and spending policies for endowment assets attempt to provide a stream of funding for its programs. Endowment assets include those assets of donor-restricted funds that TBCH 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. TBCH expects its endowment funds to provide the maximum attainable current yield while assuming a minimum level of investment risk.

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SUPMIFA requires TBCH to retain as a fund of perpetual duration. There were no such individual donor-restricted endowment funds whose value fell below the level that the donor or SUPMIFA required as of October 31, 2025 and 2024.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

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11. ENDOWMENT FUNDS, continued:

Strategies employed for achieving objectives:

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

Spending policies and how the investment objectives relate to spending policy:

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

12. FAIR VALUE MEASUREMENTS:

The *Fair Value Measurements and Disclosure* topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. TBCH uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, TBCH measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Fair values of assets measured on a recurring basis as of October 31, 2025 and 2024, are as follows:

| | Fair Value Measurements at October 31, 2025 | | | |
|--|---|-------------------|----------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Mutual funds | \$ 11,100,783 | \$ - | \$ - | \$ 11,100,783 |
| Certificates of deposit | 5,329,078 | - | - | 5,329,078 |
| Money market funds | 7,753,214 | - | - | 7,753,214 |
| Interest in pooled funds of the Southern Baptist Foundation | - | 342,308 | - | 342,308 |
| Stocks | 7,375 | - | - | 7,375 |
| Total investments | <u>\$ 24,190,450</u> | <u>\$ 342,308</u> | <u>\$ -</u> | <u>\$ 24,532,758</u> |
| Beneficial interest in trusts held by trustees | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 22,607,371</u> | <u>\$ 22,607,371</u> |

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

12. FAIR VALUE MEASUREMENTS, continued:

| | Fair Value Measurements at October 31, 2024 | | | |
|--|---|-------------------|----------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Mutual funds | \$ 15,349,732 | \$ - | \$ - | \$ 15,349,732 |
| Certificates of deposit | 4,212,295 | - | - | 4,212,295 |
| Money market funds | 8,405,741 | - | - | 8,405,741 |
| Interest in pooled funds of the Southern Baptist Foundation | - | 322,452 | - | 322,452 |
| Stocks | 5,983 | - | - | 5,983 |
| Total investments | <u>\$ 27,973,751</u> | <u>\$ 322,452</u> | <u>\$ -</u> | <u>\$ 28,296,203</u> |
| Beneficial interest in trusts held by trustees | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 21,005,424</u> | <u>\$ 21,005,424</u> |

Methods and assumptions used by TBCH in estimating fair values are as follows:

Mutual funds, certificates of deposit, and stocks—The fair value of these financial instruments is based upon quoted market prices or dealer quotes in an active market.

Interest in pooled funds of the Southern Baptist Foundation—The fair value of these financial instruments is based upon TBCH's per share interest in the pooled fund as reported by the Southern Baptist Foundation. TBCH is able to redeem its investment in the pool at the reporting date.

Beneficial interest in trusts held by trustees—The fair value of beneficial interest in trusts held by others is based on the value of TBCH's proportional share of the overall assets held by the other organizations.

Changes in valuation techniques—None.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2025 and 2024

12. FAIR VALUE MEASUREMENTS, continued:

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs as of October 31, 2025 and 2024:

| | |
|---|----------------------|
| Beneficial interest in trusts held by trustees: | |
| Balance, November 1, 2023 | \$ 18,838,509 |
| Contributions of beneficial interest in trusts held by trustees | 26,092 |
| Released from restriction | (85,715) |
| Change in value of beneficial interest in trusts | <u>2,226,538</u> |
| | |
| Balance, October 31, 2024 | <u>\$ 21,005,424</u> |
| | |
| Beneficial interest in trusts held by trustees: | |
| Balance, November 1, 2024 | \$ 21,005,424 |
| Contributions of beneficial interest in trusts held by trustees | 120,110 |
| Change in value of beneficial interest in trusts | <u>1,481,837</u> |
| | |
| Balance, October 31, 2025 | <u>\$ 22,607,371</u> |

13. RELATED PARTY DISCLOSURE:

Tennessee Baptist Convention (Convention): The Convention is comprised of messengers from cooperating churches seeking to minister together for the purpose of carrying out the Great Commission. Tennessee Baptists, acting in Convention in 1894, by unanimous action, made TBCH an institution of the Convention, thereby committing the Convention to ministering to children. Since making this commitment, Tennessee Baptists have provided prayer support and financial resources to support TBCH in meeting the growing needs of children and families in crisis through Residential Care, Foster Care, and adoption related services. The entities have entered into a covenant, committing to each other their mutual goals, aspirations, and desire to spread the gospel of Christ throughout Tennessee, North America, and the world.

The Convention supports TBCH through the Cooperative Program. TBCH relates to the Convention through the Tennessee Baptist Mission Board's Partner Ministries Committee, or its successor committee. TBCH supports the ministries of the Convention through promotion of Cooperative Program and through participation in those ministries. TBCH commits to the process of trustee selection established by the Convention.

TBCH is an autonomous nonprofit corporation, neither owned nor operated by the Convention. Governance of TBCH is vested in its board of trust in all matters.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

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13. RELATED PARTY DISCLOSURE, continued:

TBCH received from the Tennessee Baptist Mission Board \$3,039,310 and \$2,879,243 in Cooperative Program and contributions for TBCH for the years ended October 31, 2025 and 2024, respectively.

The Tennessee Baptist Foundation, an institution of the Convention, serves as trustee of funds and trusts in which TBCH has beneficial interests, as disclosed in Note 8.

TBCH received from the Tennessee Baptist Foundation \$383,147 and \$433,643 in income from trusts for the years ended October 31, 2025 and 2024, respectively.

14. COMMITMENTS AND CONTINGENCIES:

TBCH is licensed by the Tennessee Department of Children's Services (DCS) as a Residential Child Caring Agency and a Child-Placing Agency. Compliance, as evidenced by annual inspections, with Tennessee's legislative regulations is required for annual licensing renewal. TBCH also provides foster care services. The primary focus of TBCH's George Shinn Foster Care Program is a contract with DCS under which TBCH provides services to foster families and to the state-custody foster children in their care. TBCH does not receive compensation from the DCS for the services provided and the DCS makes foster care stipend payments directly to the foster families.

15. CONTRIBUTIONS OF NON-FINANCIAL ASSETS:

Contributions of non-financial assets included in the consolidated financial statements were as follows:

| | Year Ended October 31, | |
|---|------------------------|-------------------|
| | 2025 | 2024 |
| Services (labor, tuition, and office space) | \$ 56,991 | \$ 45,871 |
| Food and produce | 56,442 | 63,310 |
| Household goods, clothing, and supplies | 19,541 | 24,915 |
| Property, buildings, and equipment | 630,700 | - |
| Other | 77,961 | 62,166 |
| | <u>\$ 841,635</u> | <u>\$ 196,262</u> |

16. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through March 2, 2026 which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.