

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

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2010**

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT.....	1
FINANCIAL STATEMENTS	
Statement of Financial Position .....	2
Statement of Activities .....	3 - 4
Statement of Cash Flows .....	5
Statement of Functional Expenses.....	6 - 7
Notes to Financial Statements .....	8 - 21



## Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Tennessee Baptist Children's Homes, Inc. as of October 31, 2010, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Tennessee Baptist Children's Homes, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Baptist Children's Homes, Inc., as of October 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Crosslin & Associates, P.C.*

December 3, 2010  
Nashville, Tennessee

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2010  
(with comparative totals for 2009)

<u>ASSETS</u>		
	October 31,	
	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 5,180,317	\$ 1,026,681
Investments (Note B)	8,201,968	12,282,026
Accrued income receivable	20,670	30,938
Prepaid expenses and other assets	271,683	266,746
Funds held in custody for children	71,670	74,826
Deposits held by others	223,066	172,641
Beneficial interests in trusts held by trustees (Note J)	12,257,757	11,383,811
Property, buildings and equipment, net (Note C)	<u>9,010,426</u>	<u>9,343,544</u>
Total assets	<u>\$35,237,557</u>	<u>\$34,581,213</u>
 <u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes D and F)	\$ 2,094,623	\$ 2,105,101
Funds held in custody for children	<u>71,670</u>	<u>74,826</u>
Total liabilities	<u>2,166,293</u>	<u>2,179,927</u>
 <u>NET ASSETS</u>		
Unrestricted (Note H):		
Invested in property	\$ 7,290,715	\$ 7,623,833
Designated for operating reserve	3,872,322	3,706,091
Designated for operations	197,009	240,083
Designated for East Tennessee	<u>1,379,208</u>	<u>1,379,208</u>
	<u>12,739,254</u>	<u>12,949,215</u>
Temporarily restricted:		
Program services	2,315,742	2,108,256
Property, building and equipment purchases	779,053	1,244,487
Invested in property	1,719,711	1,719,711
Residual trusts held by trustees (Note J)	<u>562,953</u>	<u>487,713</u>
	<u>5,377,459</u>	<u>5,560,167</u>
Permanently restricted:		
Endowment (Note L)	3,259,747	2,995,806
Perpetual trusts held by trustees (Notes J and L)	<u>11,694,804</u>	<u>10,896,098</u>
	<u>14,954,551</u>	<u>13,891,904</u>
Total net assets	<u>33,071,264</u>	<u>32,401,286</u>
Total liabilities and net assets	<u>\$35,237,557</u>	<u>\$34,581,213</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2010  
(with comparative totals for 2009)

	Total	
	2009	2010
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,438,179	\$ 1,392,346
Contributions	3,478,321	3,287,660
Contributions of beneficial interests in trusts held by trustees	1,258,651	43,247
Fundraising events	135,089	112,635
Bequests	444,135	621,767
Income from trusts	452,198	383,193
Noncash gifts	156,320	201,495
Noncash gifts - fundraising events	31,453	38,522
Net assets released from restrictions (Note I)	-	-
Total support	<u>7,394,346</u>	<u>6,080,865</u>
Revenue:		
Investment income	243,985	127,808
Investment gains	480,151	225,732
Investment gains on funds held by trustees	1,096,500	916,526
Child support payments	34,743	40,773
Rental income	44,853	46,616
Other	<u>50,182</u>	<u>48,286</u>
Total revenue	<u>1,950,414</u>	<u>1,405,741</u>
Total support and revenue	<u>9,344,760</u>	<u>7,486,606</u>
Expenses:		
Program services	5,866,650	5,344,974
Supporting services	<u>1,713,027</u>	<u>1,471,654</u>
Total expenses	<u>7,579,677</u>	<u>6,816,628</u>
Total increase in net assets	1,765,083	669,978
Net assets at beginning of year	<u>30,636,203</u>	<u>32,401,286</u>
Net assets at end of year	<u>\$32,401,286</u>	<u>\$33,071,264</u>

---

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,392,346	\$ -	\$ -
2,963,766	321,842	2,052
-	33,622	9,625
-	112,635	-
477,617	35,635	108,515
218,528	161,339	3,326
-	201,495	-
-	38,522	-
<u>1,073,315</u>	<u>(1,149,972)</u>	<u>76,657</u>
<u>6,125,572</u>	<u>( 244,882)</u>	<u>200,175</u>
119,688	8,120	-
225,732	-	-
-	54,054	862,472
40,773	-	-
46,616	-	-
<u>48,286</u>	<u>-</u>	<u>-</u>
<u>481,095</u>	<u>62,174</u>	<u>862,472</u>
<u>6,606,667</u>	<u>( 182,708)</u>	<u>1,062,647</u>
5,344,974	-	-
<u>1,471,654</u>	<u>-</u>	<u>-</u>
<u>6,816,628</u>	<u>-</u>	<u>-</u>
( 209,961)	( 182,708)	1,062,647
<u>12,949,215</u>	<u>5,560,167</u>	<u>13,891,904</u>
<u>\$ 12,739,254</u>	<u>\$ 5,377,459</u>	<u>\$14,954,551</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED OCTOBER 31, 2010  
(with comparative totals for 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase in net assets	\$ 669,978	\$ 1,765,083
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Investment gains	( 225,732)	( 570,918)
Investment gains on funds held by trustees	( 916,526)	(1,096,500)
Depreciation	655,452	705,281
Gifts in-kind	( 83,683)	( 10,800)
Decrease in accrued income receivable	10,268	16,893
(Increase) decrease in prepaid expenses and other assets	( 5,734)	48,705
Decrease in property held for sale	797	-
Increase in deposits held by others	( 50,425)	( 44,832)
Increase in beneficial interests in trusts	( 43,251)	(1,258,652)
(Decrease) increase in accounts payable and accrued liabilities	<u>( 10,478)</u>	<u>388,972</u>
Net cash provided by (used in) operating activities	<u>666</u>	<u>( 56,768)</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	85,831	8,134
Purchases of property and equipment	( 238,651)	( 451,449)
Purchases of investments	( 645,154)	(7,053,980)
Proceeds from sales of investments and property held for sale	4,950,944	7,349,034
Decrease in notes receivable	<u>-</u>	<u>2,150</u>
Net cash provided by (used in) investing activities	<u>4,152,970</u>	<u>( 146,111)</u>
Net increase (decrease) in cash and cash equivalents	4,153,636	( 202,879)
Cash and cash equivalents:		
Beginning of year	<u>1,026,681</u>	<u>1,229,560</u>
End of year	<u>\$ 5,180,317</u>	<u>\$ 1,026,681</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED OCTOBER 31, 2010  
(with comparative totals for 2009)

Total			Program
2009	2010		Services
\$2,830,292	\$ 2,567,473	Salaries	\$1,857,743
1,354,938	954,599	Retirement and group insurance	715,595
189,784	169,345	Social security	131,184
44,611	33,460	Worker's compensation insurance	24,143
32,500	33,050	Houseparent's incentive pay	33,050
4,452,125	3,757,927	Total salaries and related benefits	2,761,715
16,008	17,228	Activities	17,228
33,887	30,540	Allowance and work program	30,540
16,727	11,032	Appreciation events	-
3,138	4,673	Background verification	4,598
10,000	9,931	Board meetings	-
27,912	29,472	Christmas and birthday gifts	29,472
45,591	38,843	Clothing	38,843
30,002	37,225	Cottage outings	37,225
16,926	17,209	Data communications	14,586
7,100	6,950	Dues and memberships	3,044
35,962	39,371	Equipment	39,371
71,125	77,402	Event costs	-
1,375	3,055	Family ministries	3,055
18,105	21,093	Farm	21,093
227,305	236,210	Food	236,210
28,909	14,493	Foster homes	14,493
11,709	18,566	Household goods	18,566
205,211	163,280	Insurance	147,397
29,789	37,230	Lawn maintenance	37,230
287,015	298,711	Maintenance	294,289
41,973	28,494	Medical	28,494
12,160	9,634	Miscellaneous	8,394
1,150	645	Mother's aid	645
46,361	46,667	Office	23,608
7,404	8,271	Personal hygiene	8,271
53,253	58,205	Postage	9,526
92,803	79,045	Printing and publicity	-
20,428	22,872	Professional services - legal	19,087
38,629	30,778	Professional services - non legal	-
33,443	23,891	Public relations services	-
42,420	33,345	Recreation	33,345
133,281	144,365	School and education	144,365
8,245	11,417	Spiritual enrichment and training	10,182
52,711	55,439	Supplies	55,439
28,952	35,026	Taxes	35,026
56,154	53,964	Telephone	43,047
46,850	36,117	Technology	14,777
23,740	17,165	Travel	8,544
430,835	446,089	Utilities	437,202
75,899	98,196	Vehicle fuel	81,179
51,784	51,110	Vehicle maintenance and repair	44,357
6,874,396	6,161,176	Total expenses before depreciation	4,754,443
705,281	655,452	Depreciation of buildings and equipment	590,531
<u>\$7,579,677</u>	<u>\$6,816,628</u>	Total expenses	<u>\$5,344,974</u>
100%	100%	Percentages	<u>78.4%</u>



Supporting Services		
Management and General	Development	Total
\$532,236	\$177,494	\$ 709,730
187,604	51,400	239,004
31,917	6,244	38,161
7,107	2,210	9,317
-	-	-
758,864	237,348	996,212
-	-	-
-	-	-
-	11,032	11,032
75	-	75
9,931	-	9,931
-	-	-
-	-	-
-	-	-
605	2,018	2,623
3,025	881	3,906
-	-	-
-	77,402	77,402
-	-	-
-	-	-
-	-	-
-	-	-
13,515	2,368	15,883
-	-	-
2,835	1,587	4,422
-	-	-
699	541	1,240
-	-	-
16,278	6,781	23,059
-	-	-
5,354	43,325	48,679
-	79,045	79,045
3,785	-	3,785
4,775	26,003	30,778
-	23,891	23,891
-	-	-
-	-	-
1,110	125	1,235
-	-	-
-	-	-
6,941	3,976	10,917
12,670	8,670	21,340
5,806	2,815	8,621
4,430	4,456	8,887
12,621	4,396	17,017
5,944	809	6,753
869,263	537,470	1,406,733
60,663	4,258	64,921
<u>\$929,926</u>	<u>\$541,728</u>	<u>\$1,471,654</u>
<u>13.7%</u>	<u>7.9%</u>	<u>21.6%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Accrual Basis and Financial Statement Presentation

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

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

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

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

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

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

Use of Estimates in the Preparation of Financial Statements

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

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

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 2009 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 2010.

Investments

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

Contributions

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

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

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

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 \$676,091 and \$682,420 at October 31, 2010 and 2009, respectively, in accordance with the terms of various trust instruments in which the Children's Homes may have an actual or potential interest. The trustee assets and liabilities are eliminated for reporting purposes. Any residual values which may be received by the Children's Homes have been recorded as beneficial interests in trusts at their respective fair values (Note J).

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pledges

At October 31, 2010, the Children's Homes had no unconditional pledges.

Fair Value Measurements

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

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

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

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

B. INVESTMENTS

Investments at October 31, 2010 and 2009 were as follows:

	<u>Total 2010</u>		<u>Total 2009</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual Funds	\$5,698,103	\$5,414,364	\$9,117,839	\$9,820,814
Certificates of Deposit	2,493,427	2,593,427	3,154,499	3,143,491
Insurance Policy	<u>10,438</u>	<u>10,438</u>	<u>9,688</u>	<u>9,688</u>
	<u>\$8,201,968</u>	<u>\$8,018,229</u>	<u>\$12,282,026</u>	<u>\$12,973,993</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

B. INVESTMENTS - Continued

Investments at October 31, 2010 and 2009 for each class of net assets were as follows:

	Total	
	2010	2009
Unrestricted	\$3,618,023	\$ 7,792,786
Temporarily restricted	1,316,131	1,501,583
Permanently restricted	<u>3,267,814</u>	<u>2,987,657</u>
	<u>\$8,201,968</u>	<u>\$12,282,026</u>

Interest and dividends earned on investments owned by the Children's Homes amounted to \$97,582 and \$186,534 for the years ended October 31, 2010 and 2009, respectively. This income represents yields of 4.0% and 2.1% based on the cost of such investments, and 1.6% and 2.4% based on the market of such investments for fiscal years 2010 and 2009, respectively.

The total return (income yield plus investment gains) on investments owned by the Children's Homes was a gain of 1.6% and 5.6% based on the cost of such investments, and a gain of 4.0% and 6.2% based on the market of such investments for fiscal years 2010 and 2009, respectively.

C. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment at October 31, 2010 and 2009 consisted of the following:

	2010	2009
Land	\$ 2,929,728	\$ 2,929,728
Buildings	12,688,373	12,651,069
Furnishings and equipment	1,776,627	1,363,245
Improvements other than buildings	1,432,000	1,645,160
Other machinery and equipment	633,006	625,506
Vehicles	888,029	892,021
Construction in progress (estimated cost to complete at October 31, 2010 - \$1,285,000)	<u>505,692</u>	<u>505,692</u>
	20,853,455	20,612,421
Less accumulated depreciation	<u>(11,843,029)</u>	<u>(11,268,877)</u>
Net investment in property, buildings and equipment	<u>\$ 9,010,426</u>	<u>\$ 9,343,544</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

D. POSTRETIREMENT BENEFITS

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

The status of the plan at October 31, 2010 and 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,341,317	\$ 1,038,414
Service cost	39,443	28,659
Interest cost	75,601	88,209
Actual benefit disbursements	( 63,190)	( 50,213)
Change in assumptions	95,007	334,110
Actuarial gain	<u>( 212,843)</u>	<u>( 97,862)</u>
Benefit obligation at the end of year	<u>\$ 1,275,335</u>	<u>\$ 1,341,317</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	63,190	50,213
Actual benefit disbursements	<u>( 63,190)</u>	<u>( 50,213)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$1,275,335</u>	<u>\$1,341,317</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$1,275,335</u>	<u>\$1,341,317</u>

The net periodic postretirement benefit costs for health care recognized during the years ended October 31, 2010 and 2009, which are included in salaries and related benefits, are comprised of the following components:

	<u>2010</u>	<u>2009</u>
Service cost (benefits earned during the period)	\$ 39,443	\$ 28,659
Interest cost on accumulated postretirement benefit obligation	75,601	88,209
Gain/loss to the extent recognized	<u>-</u>	<u>( 14,383)</u>
	<u>\$115,044</u>	<u>\$ 102,485</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

D. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit costs of \$115,044 and \$102,485 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2010 and 2009 respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2010.

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

	<u>2010</u>	<u>2009</u>
Healthcare costs	8.75%	8.75%
Future compensation levels	3.25%	3.25%
Discount rate	4.75%	5.60%

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

<u>Year Ending</u> <u>October 31</u>	<u>Health</u> <u>Care</u>	<u>Life</u> <u>Insurance</u>	<u>Retirement</u> <u>Gift</u>	<u>Total</u>
2011	\$ 37,617	\$ 3,505	\$ 7,690	\$ 48,812
2012	41,247	3,401	-	44,648
2013	55,801	4,280	31,870	91,951
2014	59,959	5,112	-	65,071
2015	67,537	5,742	51,827	125,106
2016 - 2020	351,359	30,140	89,025	470,524

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



TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

D. POSTRETIREMENT BENEFITS - Continued

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, the effect of a 1% increase in the trend rate of the health care cost portion of net periodic postretirement benefit cost for the year ended October 31, 2010 is as follows:

	Health Care Cost Trend Rate		<u>Increase</u>
	<u>8.75%</u>	<u>9.75%</u>	
Service cost	\$18,402	\$21,608	\$ 3,206
Interest cost	<u>59,078</u>	<u>66,244</u>	<u>7,166</u>
Net periodic postretirement health care benefit cost	<u>\$77,480</u>	<u>\$87,852</u>	<u>\$10,372</u>
Accumulated postretirement benefit obligation for health care benefits at October 31, 2010	<u>\$1,022,954</u>	<u>\$1,151,849</u>	<u>\$128,895</u>

E. PENSION PLAN

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

Under the plan, the value of accumulated benefits is equal to the value of the assets. There is no unfunded value of accrued plan benefits. Pension expense totaled \$257,162 and \$280,887 during the years ended October 31, 2010 and 2009, respectively.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

F. DEFERRED COMPENSATION PLAN

The Children's Homes has a non-elective deferred compensation plan to provide benefits payable to certain management employees at specific future dates, upon termination, retirement, death or disability. Total expense was \$22,788 and \$19,237 during the years ended October 31, 2010 and 2009, respectively. The related liability is included in accounts payable and accrued liabilities in the statement of financial position.

G. CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Children's Homes to concentrations of credit risk, consist principally of cash and cash equivalents and investments. Cash and cash equivalents at October 31, 2010 and 2009 include demand deposits at financial institutions which management believes are high credit quality financial institutions. The deposits possess credit risk to the extent they exceed federally insured limits. Management believes the exposure to concentrations of credit risk relative to securities is limited due to the Children's Homes investment objectives and policies of maintaining a variety of quality investments. Credit risk also extends to uncollateralized receivables.

H. UNRESTRICTED NET ASSETS

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

Designated for operating reserve:

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

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

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

H. UNRESTRICTED NET ASSETS - Continued

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

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

I. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$1,149,972 were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The purpose restrictions accomplished were for program services.

J. BENEFICIAL INTERESTS IN TRUSTS

Beneficial interests in trusts represent resources neither in the possession nor under the control of the Children's Homes, but held and administered by outside parties. These funds are recorded at their fair value. In addition, beneficial interests in trusts also include the residual values of certain trusts in which the Children's Homes hold funds as trustee and in accordance with the terms of the various trust instruments has an actual or potential interest. The fair values of these funds at October 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Residual trusts:		
Children's Homes as trustee	\$ 386,318	\$ 354,312
Held by outside trustees	<u>176,635</u>	<u>133,401</u>
Total residual trusts	562,953	487,713
 Perpetual trusts held by trustees	 <u>11,694,804</u>	 <u>10,896,098</u>
 Beneficial interests in trusts	 <u>\$12,257,757</u>	 <u>\$11,383,811</u>

During 2010 and 2009, the Children's Homes received interest and dividends of \$383,193 and \$452,198, respectively, on funds held in trust.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

K. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Children's Homes assessment of available market information and appropriate valuation methodologies. The following table summarizes fair value measurements at October 31, 2010 for the assets and liabilities measured at fair value on a recurring basis:

	Assets Measured at <u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 8,201,968	\$8,191,530	\$ -	\$10,438
Beneficial interests	12,257,757	-	12,257,757	-

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

L. ENDOWMENT FUNDS

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

In August 2008, the Financial Accounting Standards Board ("FASB") issued FASB ASC 958, *Endowments of Not for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FASB ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Tennessee's State Uniform Prudent Management of Institutional Funds Act (SUPMIFA) became effective during fiscal 2008. FASB ASC 958 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated funds functioning as endowment) whether or not the organization is subject to UPMIFA.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

L. ENDOWMENT FUNDS - Continued

**Interpretation of Relevant Law**

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

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

**Endowment Net Asset Composition by Type of Fund as of October 31, 2010**

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$7,205	\$ 3,259,747	\$ 3,266,950
Perpetual trusts held by trustees	<u>-</u>	<u>11,694,804</u>	<u>11,694,804</u>
Total funds	<u>\$7,205</u>	<u>\$14,954,551</u>	<u>\$14,961,754</u>

**Endowment Net Asset Composition by Type of Fund as of October 31, 2009**

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(8,149)	\$ 2,995,806	\$ 2,987,657
Perpetual trusts held by trustees	<u>-</u>	<u>10,896,098</u>	<u>10,896,098</u>
Total funds	<u>\$(8,149)</u>	<u>\$13,891,904</u>	<u>\$13,883,755</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

L. ENDOWMENT FUNDS - Continued

**Changes in Endowment Net Assets for the years ended October 31, 2010 and 2009**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Endowment net assets</i> , November 1, 2008	\$(32,509)	\$11,491,523	\$ 11,459,014
Investment return:			
Investment income	58,998	699	59,697
Net appreciation (realized and unrealized)	<u>24,360</u>	<u>1,062,483</u>	<u>1,086,843</u>
Total investment return	<u>83,358</u>	<u>1,063,182</u>	<u>1,146,540</u>
Contributions	<u>-</u>	<u>1,337,199</u>	<u>1,337,199</u>
Appropriation of endowment assets for expenditure	<u>(58,998)</u>	<u>-</u>	<u>( 58,998)</u>
<i>Endowment net assets</i> , October 31, 2009	<u>( 8,149)</u>	<u>13,891,904</u>	<u>13,883,755</u>
Investment return:			
Investment income	66,619	-	66,619
Net appreciation (realized and unrealized)	<u>15,354</u>	<u>862,472</u>	<u>877,826</u>
Total investment return	<u>81,973</u>	<u>862,472</u>	<u>944,445</u>
Contributions	<u>-</u>	<u>200,173</u>	<u>200,173</u>
Appropriation of endowment assets for expenditure	<u>(66,619)</u>	<u>-</u>	<u>( 66,619)</u>
<i>Endowment net assets</i> , October 31, 2010	<u>\$ 7,205</u>	<u>\$14,954,551</u>	<u>\$ 14,961,754</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2010  
(with comparative totals for 2009)

L. ENDOWMENT FUNDS - Continued

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How Investment Objectives Relate to Spending Policy

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

M. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 3, 2010, the issuance date of the financial statements, and has determined that there are no subsequent events requiring disclosure.