

**TENNESSEE BAPTIST
ADULT HOMES, INC.**

FINANCIAL STATEMENTS

OCTOBER 31, 2019

TENNESSEE BAPTIST ADULT HOMES, INC.

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Independent Auditor's Report

The Board of Directors
Tennessee Baptist Adult Homes, Inc.
Brentwood, Tennessee

Report on Financial Statements

We have audited the accompanying financial statements of Tennessee Baptist Adult Homes, Inc. ("Adult Homes"), which comprise the statement of financial position as of October 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Baptist Adult Homes, Inc. as of October 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Financial Statement Presentation

As discussed in Note A to the financial statements, Tennessee Baptist Adult Homes adopted the amendments in Accounting Standards Update (“ASU”) No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of liquidity and availability of resources, which has been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Adult Homes’ 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nashville, Tennessee
December 13, 2019

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

<u>ASSETS</u>		
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 290,718	\$ 230,189
Investments held by Tennessee Baptist Foundation (Note C)	618,051	571,110
Receivables:		
Related party receivables	30,353	30,353
Accounts and notes receivable - other	359,079	225,611
Total receivables, no allowance considered necessary	<u>389,432</u>	<u>255,964</u>
Prepaid expenses	12,852	12,852
Land, buildings and equipment, at cost, net (Notes D)	1,036,681	1,136,849
Beneficial interests in trusts held by others (Note M)	1,176,050	1,107,931
Assets of continuing operations	<u>3,523,784</u>	<u>3,314,895</u>
Assets of discontinued operations	<u>3,352,077</u>	<u>3,554,688</u>
Total assets	<u><u>\$ 6,875,861</u></u>	<u><u>\$ 6,869,583</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 61,262	\$ 56,408
Postretirement benefit liability (Note I)	350,183	349,601
Lines-of-credit (Note E)	105,000	-
Liabilities from continuing operations	<u>516,445</u>	<u>406,009</u>
Liabilities from discontinued operations	<u>63,712</u>	<u>303,600</u>
Total liabilities	<u>580,157</u>	<u>709,609</u>
Net assets:		
Without donor restrictions:		
Board designated	549,159	451,395
Undesignated	4,230,106	4,278,949
	<u>4,779,265</u>	<u>4,730,344</u>
With donor restrictions (Notes N and P)	1,516,439	1,429,630
Total net assets	<u>6,295,704</u>	<u>6,159,974</u>
Total liabilities and net assets	<u><u>\$ 6,875,861</u></u>	<u><u>\$ 6,869,583</u></u>

See accompanying notes to financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total	
			2019	2018
Support, revenue and gains:				
Allocations from the cooperative program of Tennessee Baptist Mission Board	\$ 290,847	\$ -	\$ 290,847	\$ 287,288
Contributions and gifts	629,395	112,132	741,527	350,884
Investment return, net	48,338	111,294	159,632	26,123
Management fees - Deer Lake Retirement Village	9,000	-	9,000	9,000
Rental income	29,870	-	29,870	35,915
Stoneway revenue	290,274	-	290,274	274,777
Rainbow revenue	184,039	-	184,039	211,270
Knoxville revenue	378,382	-	378,382	406,954
Lake Park revenue	171,114	-	171,114	194,707
Special Friends revenue	83,040	-	83,040	86,275
Other income	133,444	-	133,444	98
Net assets released from restrictions (Note O)	136,617	(136,617)	-	-
Total support, revenue and gains	<u>2,384,360</u>	<u>86,809</u>	<u>2,471,169</u>	<u>1,883,291</u>
Expenses and losses:				
Program services:				
Stoneway expense	441,413	-	441,413	404,800
Rainbow expense	378,141	-	378,141	381,714
Knoxville expense	424,104	-	424,104	419,481
Lake Park expense	210,416	-	210,416	246,578
Special Friends expense	201,306	-	201,306	198,084
Depreciation	100,167	-	100,167	102,700
Total program services	<u>1,755,547</u>	<u>-</u>	<u>1,755,547</u>	<u>1,753,357</u>
General and administrative	<u>498,972</u>	<u>-</u>	<u>498,972</u>	<u>456,660</u>
Total expenses and losses	<u>2,254,519</u>	<u>-</u>	<u>2,254,519</u>	<u>2,210,017</u>
Change in net assets from continuing operations	<u>129,841</u>	<u>86,809</u>	<u>216,650</u>	<u>(326,726)</u>
Discontinued operations:				
Loss from operations of discontinued operations	(80,920)	-	(80,920)	(175,840)
Gain on sale of discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,887,765</u>
Change in net assets from discontinued operations	<u>(80,920)</u>	<u>-</u>	<u>(80,920)</u>	<u>1,711,925</u>
Change in net assets	48,921	86,809	135,730	1,385,199
Net assets at beginning of year	<u>4,730,344</u>	<u>1,429,630</u>	<u>6,159,974</u>	<u>4,774,775</u>
Net assets at end of year	<u>\$ 4,779,265</u>	<u>\$ 1,516,439</u>	<u>\$ 6,295,704</u>	<u>\$ 6,159,974</u>

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

	Program Services	General and Administrative	Total	
			2019	2018
Salaries	\$ 780,412	\$ 233,819	\$ 1,014,231	\$ 1,012,112
Employee benefits	277,281	105,002	382,283	352,981
Total salaries and related benefits	1,057,693	338,821	1,396,514	1,365,093
Advertising, marketing and recruitment	20,550	444	20,994	12,154
Bed taxes and licenses	1,990	-	1,990	1,990
Depreciation	100,167	-	100,167	102,700
Food supplies	130,837	-	130,837	126,051
Insurance	18,438	19,865	38,303	35,711
Interest	-	59	59	3,276
Maintenance and repairs	27,902	11,629	39,531	54,783
Memberships, due and subscriptions	1,044	2,068	3,112	2,931
Miscellaneous	116,154	27,659	143,813	137,027
Professional and consulting services	-	17,694	17,694	4,650
Property taxes	-	14,552	14,552	11,748
Purchased services	12,041	5,500	17,541	17,594
Resident activities	10,852	-	10,852	11,150
Resident allowances	29,419	-	29,419	32,639
Special Friends camps	80,718	-	80,718	86,587
Supplies	12,080	4,465	16,545	13,410
Training	98	2,250	2,348	428
Travel and auto	34,153	12,621	46,774	49,282
Utilities	101,411	41,345	142,756	140,813
Total	<u>\$ 1,755,547</u>	<u>\$ 498,972</u>	<u>\$ 2,254,519</u>	<u>\$ 2,210,017</u>
Percentages	<u>77.87%</u>	<u>22.13%</u>	<u>100.00%</u>	<u>100.00%</u>

See accompanying notes to financial statements.

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

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 135,730	\$ 1,385,199
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	100,167	102,700
Gain on sale of discontinued segment	-	(1,887,765)
Net gains on investments and beneficial interests in trusts	(159,632)	(26,123)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(133,468)	146,140
Decrease in prepaid expenses	-	25
Increase (decrease) in accounts payable and accrued liabilities	4,855	(16,616)
Increase (decrease) in accrued post-retirement benefit	582	(21,659)
Net change in operating activities from discontinued operations	(207,223)	55,346
Net cash used in operating activities	<u>(258,989)</u>	<u>(262,753)</u>
Cash flows from investing activities:		
Net purchases of property and equipment	-	(41,839)
Net sales of investments	44,572	47,518
Net proceeds from sale of discontinued operations	-	1,087,397
Net change in investing activities from discontinued operations	169,946	(660,069)
Net cash provided by investing activities	<u>214,518</u>	<u>433,007</u>
Cash flows from financing activities:		
Net change in lines of credit	105,000	(145,000)
Net change in financing activities from discontinued operations	-	111,613
Net cash provided by (used in) financing activities	<u>105,000</u>	<u>(33,387)</u>
Net change in cash	60,529	136,867
Cash and cash equivalents at beginning of year	<u>230,189</u>	<u>93,322</u>
Cash and cash equivalents at end of year	<u>\$ 290,718</u>	<u>\$ 230,189</u>
Additional information:		
Interest paid	<u>\$ 59</u>	<u>\$ 18,892</u>
Debt repaid from proceeds from sale of discontinued operations	<u>\$ -</u>	<u>\$ 400,000</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019
(with comparative total for 2018)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Tennessee Baptist Adult Homes, Inc. (“Adult Homes”), operates under the auspices of the Tennessee Baptist Convention. Its purpose, generally, is to provide a Christian residential ministry for senior and exceptional adults.

Adult Homes’ principal revenue sources, in addition to support from the Tennessee Baptist Convention, consist of operating adult group homes in Jacksboro/Knoxville, Lebanon, and Hermitage, Tennessee (Rainbow Acres, Stoneway Acres, and Lake Park Home). In addition, Adult Homes receives management fees from Deer Lake Retirement Village, rental income from elderly housing at Baptist Village of Johnson City, and fees under sponsorship agreements (See Note F). Adult Homes operates an adult independent living community, Williams Ferry Pointe (“WFP”), located in Lenoir City. In fiscal year 2019, Adult Home’s Board of Directors elected to discontinue operations and authorized the sale of the community. WFP is available for sale as of October 31, 2019. Accordingly, the activity for WFP is presented as discontinued operations in the accompanying statements (See Note G). Adult Homes also operated an intermediate nursing care facility, Baptist Health Care Center (“BHCC”), in Lenoir City, Tennessee through December 31, 2017. Effective January 1, 2018, Adult Homes sold BHCC and, accordingly, activity for BHCC has been presented as discontinued operations in the accompanying financial statements (See Note H).

Basis of Presentation

The financial statements of Adult Homes have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Resources are classified into two net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Adult Homes and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Adult Homes. These net assets may be used at the discretion of the Adult Home’s management and the board of directors. Net assets without donor restrictions include the following:

Board Designated Net Assets – utilized for future projects at the Board’s discretion.

Undesignated Net Assets – net assets without donor restrictions excluding those designated for specific activities by the Board of Directors.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019
(with comparative total for 2018)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets With Donor Restrictions - Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Adult Homes or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Expirations of restrictions on net assets as the result of the passage of time and/or fulfilling donor-imposed stipulations are reported as net assets released from restrictions between the applicable classes of net assets in the statements of activities.

Comparative Financial Totals and Reclassifications

Certain fiscal year 2018 amounts have been reclassified to conform to the financial statement presentation in fiscal year 2019, including amounts reclassified due to reporting of activity for WFP under ASC 205-20 *Discontinued Operations*.

Revenue Recognition

Revenue from exchange transactions and other non-contribution related revenue are recognized as earned. Contributions are recognized as revenue when received. Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor imposed restrictions.

Adult Homes reports gifts of land, buildings, and equipment as without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Adult Homes reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Land, Buildings and Equipment

Land, 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. It is Adult Homes' policy to capitalize expenditures for these items in excess of \$1,000.

Depreciation of buildings, improvements, furniture, equipment and vehicles is provided over the estimated useful lives of the respective assets using the straight-line method.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019
(with comparative total for 2018)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Impairment of Long-Lived Assets

Adult Homes evaluates the recoverability of its long-lived assets for possible impairment when events or circumstances indicate that the carrying amounts may not be recoverable. Long-lived assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are independent of the cash flows of other groups of assets. If it is determined that the carrying amounts of such long-lived assets are not recoverable, the assets are written down to their fair value. As of October 31, 2019 and 2018, in the opinion of management, there has been no such impairment.

Income Taxes

Adult 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 financial statements.

Adult 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 Adult Homes include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, Adult Homes has determined that such tax positions do not result in an uncertainty requiring recognition.

Estimates

Judgment and estimation are exercised by management in certain areas of the preparation of financial statements. The more significant areas include the collectability of receivables, the recovery period for buildings and equipment, the determination of the postretirement benefit liability and fair value of completed homes available for sale. 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 ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019
(with comparative total for 2018)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note Q). 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 Adult Homes' best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Adult Homes considers all cash and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Adult Homes maintains cash balances in financial institutions that it considers to be high quality financial institutions.

Investments

Adult Homes is required to report investments at fair value with gains and losses included in the statement of activities.

New Accounting Pronouncement

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

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019
(with comparative total for 2018)

B. LIQUIDITY AND AVAILABILITY OF RESOURCES

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

Financial assets at year end:	
Cash and cash equivalents	\$ 290,718
Investments, at fair value	618,051
Accounts receivable	<u>389,432</u>
 Total financial assets	 <u>1,298,201</u>
 Less amounts not available to be used for general expenditures within one year:	
Board designated net assets	(549,159)
Net assets with donor restrictions	<u>(1,516,439)</u>
Financial assets not available to be used within one year	<u>(2,065,598)</u>
Financial assets available to meet general expenditures within one year	 <u><u>\$ (767,397)</u></u>

Adult Homes intends to hold Board designated funds for future projects, as directed by the Board of Directors, however these amounts could be made available, if necessary. Adult Homes also has availability under two lines-of-credit with a maximum borrowing limit totaling \$550,000, which is available for use in operations as needed. The lines-of-credit have an available limit of \$445,000 at October 31, 2019. Adult Homes has a policy to structure its financial assets to be available as its obligations come due.

C. INVESTMENTS HELD BY THE TENNESSEE BAPTIST FOUNDATION

Investments at October 31 are summarized as follows:

	<u>Total 2019</u>		<u>Total 2018</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual funds	\$486,799	\$453,870	\$429,758	\$342,603
Fixed income	<u>131,252</u>	<u>133,294</u>	<u>141,352</u>	<u>145,294</u>
	<u>\$618,051</u>	<u>\$587,164</u>	<u>\$571,110</u>	<u>\$487,897</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019
(with comparative total for 2018)

C. INVESTMENTS HELD BY THE TENNESSEE BAPTIST FOUNDATION - Continued

Investments at October 31 for each class of net assets were as follows:

	<u>Total</u>	
	<u>2019</u>	<u>2018</u>
	<u>Market</u>	<u>Market</u>
Without Donor Restrictions	\$277,663	\$249,411
With Donor Restrictions	<u>340,388</u>	<u>329,699</u>
	<u>\$618,051</u>	<u>\$571,110</u>

Income and gains on investments owned by Adult Homes and beneficial interests in trusts held by others amounted to \$159,632 and \$26,123 for the years ended October 31, 2019 and 2018, respectively. This income and gains represent a yield of 9.45% and 1.55% based on the average market of such investments and beneficial interests in trusts held by others for fiscal year 2019 and 2018, respectively.

D. LAND, BUILDINGS AND EQUIPMENT

A summary of the major classifications of land, buildings and equipment and accumulated depreciation is as follows:

	<u>October 31,</u>	
	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 527,909	\$ 527,909
Buildings	2,202,904	2,202,904
Building improvements	325,083	325,083
Leasehold improvements	2,185	2,185
Furniture, equipment and automotive equipment	<u>453,953</u>	<u>453,953</u>
	3,512,034	3,512,034
Less accumulated depreciation	<u>(2,475,353)</u>	<u>(2,375,185)</u>
	<u>\$ 1,036,681</u>	<u>\$ 1,136,849</u>

E. LINES-OF-CREDIT

Adult Homes has a note payable to a bank under a \$200,000 revolving line-of-credit. Interest is payable monthly at a variable interest rate (5.75% and 6.25% at October 31, 2019 and 2018, respectively) and is due on demand. The balance of the line-of-credit at October 31, 2019 and 2018 was \$105,000 and \$-0-, respectively. The line-of-credit is unsecured.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019
(with comparative total for 2018)

E. LINES-OF-CREDIT - Continued

In February 2019, Adult Homes entered into a line-of-credit agreement with a bank, with a maximum borrowing limit of \$350,000. Interest is payable monthly at a variable interest rate (6.0% at October 31, 2019) and is due on demand or on the maturity date. The line-of-credit matures on February 26, 2022. The balance of the line-of-credit at October 31, 2019 was \$-0-. The line-of-credit is collateralized by real estate.

F. SPONSORSHIP AGREEMENTS

Deer Lake Retirement Village

Adult Homes sponsors the Deer Lake Retirement Village. Additionally, its responsibility includes appointing certain directors to the Deer Lake Retirement Association Board of Directors and ministering to the homeowners. The President/Treasurer of Adult Homes is also the President of the Homeowners Association and, in this capacity, manages financial activities of the Homeowners Association. Adult Homes receives \$750 per month from the Homeowners Association for reimbursement of financial and other office services, including the bookkeeping function.

The Homeowners Association of Deer Lake is not considered an affiliated entity of Adult Homes and, accordingly, its accounts are not included in the accompanying financial statements.

G. DISCONTINUED OPERATIONS

During fiscal year 2019, the Board of Directors elected to discontinue operations of Williams Ferry Pointe ("WFP") and authorized the sale of the independent living community. WFP is currently available for sale. Accordingly, the results of the operations of WFP have been separately presented as discontinued operations. Similarly, the assets and liabilities of WFP have been reclassified and reported as discontinued operations as of October 31, 2018 and for the year then ended.

The operating results of WFP, net of intercompany items, classified as discontinued operations in fiscal year 2019 and 2018, are summarized as follows:

	<u>2019</u>	<u>2018</u>
Rental property income	\$13,150	\$11,265
Land lease income	-	9,863
Other	<u>-</u>	<u>159</u>
Total revenue, support, and gains	<u>\$13,150</u>	<u>\$ 21,287</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019
(with comparative total for 2018)

G. DISCONTINUED OPERATIONS – Continued

	<u>2019</u>	<u>2018</u>
Program services	\$ 78,024	\$ 77,311
Loss on sale of homes available for sale	16,046	-
General and administrative services	<u>-</u>	<u>37,659</u>
Total expenses and losses	<u>94,070</u>	<u>114,970</u>
Loss from discontinued operations	<u>\$(80,920)</u>	<u>\$(93,683)</u>

The following are the major classes of assets and liabilities related to the discontinued operations, net of intercompany items, as of October 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 40,820	\$ 73,485
Land, buildings and equipment, net	1,842,807	1,842,807
Completed homes available for sale	<u>1,468,450</u>	<u>1,638,396</u>
Assets of discontinued operations	<u>\$3,352,077</u>	<u>\$3,554,688</u>
Accounts payable and other liabilities	\$ 46,417	\$ 134,105
Deferred revenue	<u>17,295</u>	<u>169,495</u>
Liabilities of discontinued operations	<u>\$ 63,712</u>	<u>\$ 303,600</u>

H. SALE OF BAPTIST HEALTH CARE CENTER

Effective January 1, 2018, Adult Homes sold its intermediate nursing care facility, Baptist Health Care Center (“BHCC”) to Lenoir City Real Estate Investors, LLC. Adult Homes does not have any continuing interest or other influence over BHCC following the sale, and, accordingly, the results of operations of BHCC have been separately presented as discontinued operations.

The sales price totaled \$3,450,000 and was offset by \$1,957,383 in repayment of outstanding debt, \$135,961 in payment of certain accrued expenses, \$19,259 in closing costs, and \$250,000 to be held in escrow for two years. Accordingly, net cash proceeds totaled \$1,087,397. Upon completion of the sale, Adult Homes recorded a gain of \$1,887,765.

Adult Homes used a portion of its net proceeds from the sale to purchase four homes for Williams Ferry Pointe for approximately \$660,000.

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H. SALE OF BAPTIST HEALTH CARE CENTER - Continued

The operating results of BHCC, net of intercompany items, classified as discontinued operations in fiscal year 2018, are summarized as follows:

	<u>2018</u>
Patient service revenue, net	\$ 695,860
Contributions and other revenue	<u>5,953</u>
Total revenue, support, and gains	<u>701,813</u>
Program services	653,389
General and administrative services	<u>130,581</u>
Total expenses and losses	<u>783,970</u>
Loss from operations of discontinued operations	(82,157)
Gain on sale of discontinued operations	<u>1,887,765</u>
Change in net assets from discontinued operations	<u>\$ 1,805,608</u>

I. POSTRETIREMENT BENEFITS

Adult Homes offers postretirement health care benefits, dependent health care benefits on a shared cost basis, and life insurance to its employees provided they remain employed until retirement.

The status of the plan at October 31 was as follows:

	<u>2019</u>	<u>2018</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 349,601	\$ 371,260
Net periodic postretirement benefit cost	22,152	18,223
Other actuarial changes	(13,223)	(31,535)
Actual benefit disbursements	<u>(8,347)</u>	<u>(8,347)</u>
Benefit obligation at the end of year	<u>\$ 350,183</u>	<u>\$ 349,601</u>

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I. POSTRETIREMENT BENEFITS - Continued

	<u>2019</u>	<u>2018</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	8,347	8,347
Actual benefit disbursements	<u>(8,347)</u>	<u>(8,347)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$350,183</u>	<u>\$349,601</u>
Net postretirement benefit liability recognized in statements of financial position	<u>\$350,183</u>	<u>\$349,601</u>

The net periodic postretirement benefit cost recognized during the years ended October 31, 2019 and 2018 was \$22,152 and \$18,223, respectively.

The accumulated postretirement benefit obligation and the net periodic postretirement benefit cost recognized were determined using assumed annual increases in health care costs of 7% and future compensation levels of 3% for fiscal year 2019 and 2018. In addition, assumed discount rates were 4% for fiscal years 2019 and 2018.

At October 31, 2019 and 2018, Adult Homes' assets with a fair value totaling \$87,101 and \$79,555, respectively have been designated to fund the obligation.

J. RETIREMENT PLAN

Adult Homes participates in the retirement program of GuideStone Financial Resources of the Southern Baptist Convention. The plans are defined contribution plans that cover substantially all full-time employees. Adult Homes contributes an amount equal to 11% of the participants' compensation for administrative division employees. For the non-administrative division, employee contributions of up to 6% are matched by Adult Homes. Pension expense for the years ended October 31, 2019 and 2018, was \$47,051 and \$50,041 respectively.

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K. RELATED PARTY TRANSACTIONS

Adult Homes occupies office space in the Church Support Center owned by Tennessee Baptist Mission Board in Franklin, Tennessee. Adult Homes reimburses the Mission Board an annual cost sharing amount for use of the facilities, which amounted to \$40,435 for each of the years ending October 31, 2019 and 2018, respectively.

L. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject Adult Homes to concentrations of credit risk consist principally of cash and investments held by Adult Homes and the Tennessee Baptist Foundation. Cash at October 31, 2019 includes demand deposits at certain financial institutions. The deposits possess credit risk to the extent they exceed federally insured limits. The exposure to concentrations of credit risk relative to securities is limited due to Adult Homes' investment objectives and policies of maintaining a variety of quality investments. Credit risk also extends to uncollateralized receivables, net of allowances.

M. BENEFICIAL INTERESTS IN TRUSTS HELD BY OTHERS

Beneficial interest in trusts held by others were \$1,176,050 and \$1,107,931 at October 31, 2019 and 2018, respectively. These funds name Adult Homes as a beneficiary and are held by the Tennessee Baptist Foundation.

N. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at October 31, 2019 and 2018 have been restricted by the donors for the following purposes:

	<u>2019</u>	<u>2018</u>
Subject to purpose restrictions - programs	\$ 173,342	\$ 135,355
Restricted in perpetuity:		
Endowment funds	246,836	246,836
Beneficial interests in perpetual trusts	<u>1,096,261</u>	<u>1,047,439</u>
	<u>1,343,097</u>	<u>1,294,275</u>
Net assets with donor restrictions	<u>\$1,516,439</u>	<u>\$1,429,630</u>

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O. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets with donor restrictions for the years ended October 31, 2019 and 2018 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions	\$ 93,666	\$149,946
Endowment spending	<u>42,951</u>	<u>46,922</u>
	<u>\$136,617</u>	<u>\$196,868</u>

P. ENDOWMENT

ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the applicable state law and requires additional disclosures about an organization's endowment funds. Adult Homes' endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and beneficial interests in perpetual trusts held by others. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Adult Homes has interpreted the applicable state law 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, Adult Homes classifies as net assets with donor restrictions (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 as held in perpetuity is classified as a purpose restriction until those amounts are appropriated for expenditure by Adult Homes in a manner consistent with the standard of prudence prescribed by applicable state laws.

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P. ENDOWMENT - Continued

Endowment Net Asset Composition by Type of Fund as of October 31:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>2019:</u>			
Donor-restricted endowment funds	\$36,380	\$ 321,702	\$ 358,082
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>1,096,260</u>	<u>1,096,260</u>
Total funds	<u>\$36,380</u>	<u>\$1,417,962</u>	<u>\$1,454,342</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>2018:</u>			
Donor-restricted endowment funds	\$29,939	\$ 305,124	\$ 335,063
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>1,047,439</u>	<u>1,047,439</u>
Total funds	<u>\$29,939</u>	<u>\$1,352,563</u>	<u>\$1,382,502</u>

Changes in Endowment Net Assets:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, November 1, 2017	\$ 27,605	\$ 1,366,314	\$ 1,393,919
Investment return; net	2,503	33,171	35,674
Contributions	-	-	-
Appropriation of endowment assets for expenditure	<u>(169)</u>	<u>(46,922)</u>	<u>(47,091)</u>
Endowment net assets, October 31, 2018	29,939	1,352,563	1,382,502
Investment return; net	6,441	108,350	114,791
Contributions	-	-	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(42,951)</u>	<u>(42,951)</u>
Endowment net assets, October 31, 2019	<u>\$ 36,380</u>	<u>\$ 1,417,962</u>	<u>\$ 1,454,342</u>

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P. ENDOWMENT - Continued

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 the applicable state law requires Adult Homes to retain as a fund of perpetual duration. There were no funds with deficiencies at October 31, 2019 and 2018.

Return Objectives and Risk Parameters

Adult Homes has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Adult Homes must hold in perpetuity or for a donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected market and comparative indices while assuming a moderate level of investment risk. Actual returns will vary in any given year.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Adult Homes relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Adult Homes targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Adult Homes has no formal spending policy. Annual appropriations for expenditure are made at the discretion of the Board of Directors when determining the annual budget. In determining this amount, Adult Homes considers the long-term expected return on its endowment. Adult Homes' objective is to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

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Q. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair values of financial instruments are presented below. The estimated fair value amounts have been determined based on Adult Homes assessment of available market information and appropriate valuation methodologies. Adult Homes evaluates fair value measurement inputs annually at October 31. The following table summarizes fair value disclosures and measurements at October 31, 2019 and 2018:

	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>
<u>2019:</u>				
Investments:				
Mutual funds	\$ 486,799	\$486,799	\$ -	\$ -
Fixed income	<u>131,252</u>	<u>131,252</u>	<u>-</u>	<u>-</u>
Total investments	618,051	618,051	-	-
Beneficial interests in trusts held by others	\$1,176,050	\$ -	\$1,176,050	\$ -
<u>2018:</u>				
Investments:				
Mutual funds	\$ 429,758	\$429,758	\$ -	\$ -
Fixed income	<u>141,352</u>	<u>141,352</u>	<u>-</u>	<u>-</u>
Total investments	571,110	571,110	-	-
Beneficial interests in trusts held by others	\$1,107,931	\$ -	\$1,107,931	\$ -

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents

Cash and cash equivalents are reflected at carrying value, which is considered their fair value.

Accounts and Notes Receivable

Accounts and notes receivable consist primarily of short-term receivables from adult group homes. The notes receivable are not readily marketable. Adult Homes has estimated fair value to be their carrying value.

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Q. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Investments and Beneficial Interests in Trusts Held by Others

The fair value of investments and beneficial interests in trusts held by others, as disclosed in Notes C and M, respectively, has been calculated based on quoted market prices, where available, and Level 2 inputs.

Accounts Payable, Accrued Liabilities and Deferred Revenue

The carrying value of accounts payable, accrued liabilities and deferred revenue approximates fair value due to the short-term nature of the obligations.

Lines-of-Credit and Notes Payable

For debt instruments with variable interest rates, the fair value approximates the carrying value. For fixed rate debt, the carrying value approximates fair value, as interest approximates market rates.

R. FUND RAISING AND ADVERTISING COSTS

Adult Homes expenses the cost of fund raising and advertising as incurred. These costs for the years ended October 31, 2019 and 2018 were \$20,994 and \$12,154, respectively.

S. LITIGATION AND CONTINGENCIES

Adult Homes is a defendant in legal actions from time to time in the normal course of operations. It is not possible to state the ultimate liability, if any, in these matters. In the opinion of management and legal counsel, any resulting liability from these actions will not have a material adverse effect on the results of activities or the financial position of Adult Homes.

T. SUBSEQUENT EVENTS

Adult Homes has evaluated subsequent events through December 13, 2019, the date the financial statements were available to be issued, and have determined that, there are no subsequent events that required disclosure.