

TENNESSEE BAPTIST ADULT HOMES, INC.

Financial Statements
With Independent Auditors' Report

October 31, 2020

TENNESSEE BAPTIST ADULT HOMES, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Tennessee Baptist Adult Homes, Inc.
Franklin, Tennessee

We have audited the accompanying financial statements of Tennessee Baptist Adult Homes, Inc., which comprise the statement of financial position as of October 31, 2020, 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.

Auditors' 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.

Board of Directors
Tennessee Baptist Adult Homes, Inc.
Franklin, Tennessee

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, 2020, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 14 to the financial statements, it was determined that the prior period records contained multiple errors and misstatements that required correction. The misstatements included entries to correct the endowments, trust assets, beneficial interests in trusts held by others, funds held for others, property and equipment, and net assets. Our opinion is not modified with respect to these matters.

Capin Crouse LLP

Lawrenceville, Georgia
May 13, 2021

TENNESSEE BAPTIST ADULT HOMES, INC.

Statement of Financial Position

October 31, 2020

ASSETS:

Cash and cash equivalents	\$ 1,853,419
Contributions receivable	48,299
Investments	1,686,646
Funds held for others	86,399
Property and equipment—net	940,225
Beneficial interests in trusts held by others	<u>1,482,774</u>

Total Assets	<u><u>\$ 6,097,762</u></u>
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LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable	\$ 23,790
Funds held for others	86,399
Other liabilities	113,841
Post-retirement benefit obligation	<u>365,286</u>
Total liabilities	<u>589,316</u>

Net assets:

Without donor restrictions	3,506,861
With donor restrictions	<u>2,001,585</u>
Total net assets	<u>5,508,446</u>

Total Liabilities and Net Assets	<u><u>\$ 6,097,762</u></u>
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See notes to financial statements

TENNESSEE BAPTIST ADULT HOMES, INC.

Statement of Activities

Year Ended October 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:			
Resident services—net	\$ 801,673	\$ -	\$ 801,673
Contributions	364,952	141,290	506,242
Contributions from			
Tennessee Baptist Mission Board	290,648	-	290,648
Investment income	68,120	27,248	95,368
Loss on sale of property and equipment	(669,629)	-	(669,629)
Other revenue	66,753	-	66,753
Total Support and Revenue	<u>922,517</u>	<u>168,538</u>	<u>1,091,055</u>
RECLASSIFICATIONS:			
Satisfaction of purpose restrictions	<u>11,824</u>	<u>(11,824)</u>	<u>-</u>
EXPENSES:			
Resident services	1,590,147	-	1,590,147
Management and general	648,166	-	648,166
Total Expenses	<u>2,238,313</u>	<u>-</u>	<u>2,238,313</u>
Change in Operating Net Assets	<u>(1,303,972)</u>		
NON-OPERATING ACTIVITIES:			
Other components of net periodic			
post-retirement costs	(13,842)	-	(13,842)
Post-retirement related changes other than			
net periodic post-retirement costs	(5,362)	-	(5,362)
Change in value of beneficial			
interests in trusts held by others	-	(2,608)	(2,608)
Total Non-Operating Activities	<u>(19,204)</u>	<u>(2,608)</u>	<u>(21,812)</u>
Change in Net Assets	<u>(1,323,176)</u>	<u>154,106</u>	<u>(1,169,070)</u>
Net Assets, Beginning of Year:			
As Previously Reported	4,779,265	1,516,439	6,295,704
Prior Period Adjustment (Note 13)	50,772	331,040	381,812
As Restated	<u>4,830,037</u>	<u>1,847,479</u>	<u>6,677,516</u>
Net Assets, End of Year	<u>\$ 3,506,861</u>	<u>\$ 2,001,585</u>	<u>\$ 5,508,446</u>

See notes to financial statements

TENNESSEE BAPTIST ADULT HOMES, INC.

Statement of Functional Expenses

Year Ended October 31, 2020

	Resident Services	Management and General	Total
Salaries and wages	\$ 783,742	277,738	\$ 1,061,480
Payroll taxes and benefits	277,567	106,041	383,608
Professional fees and staff development	4,091	21,676	25,767
Occupancy, equipment, and maintenance	153,571	60,893	214,464
Resident activities and allowances	152,332	-	152,332
Interest and bank fees	36	5,619	5,655
Depreciation	61,092	11,832	72,924
Insurance	20,177	51,500	71,677
Supplies and office expenses	137,053	8,133	145,186
Other expenses	486	104,734	105,220
	<u>1,590,147</u>	<u>648,166</u>	<u>2,238,313</u>
Other components of net periodic postretirement costs	<u>-</u>	<u>13,842</u>	<u>13,842</u>
	<u><u>\$ 1,590,147</u></u>	<u><u>\$ 662,008</u></u>	<u><u>\$ 2,252,155</u></u>

See notes to financial statements

TENNESSEE BAPTIST ADULT HOMES, INC.

Statement of Cash Flows

Year Ended October 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (1,169,070)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	72,924
Net realized and unrealized gains on investments	(38,973)
Loss on sale of property and equipment	669,629
Change in value of beneficial interests in trusts held by others	2,608
Contributions received for long-term purposes	(15,291)
Changes in:	
Contributions receivable	353,985
Accounts payable	(37,472)
Other liabilities	18,149
Post-retirement benefits obligation	15,103
Net Cash Used by Operating Activities	<u>(128,408)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of investments	(1,017,967)
Proceeds from sale of investments	14,163
Purchases of property and equipment	(7,684)
Proceeds from sale of property and equipment	2,792,306
Net Cash Provided by Investing Activities	<u>1,780,818</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Contributions received for long-term purposes	15,291
Payments on notes payable	(105,000)
Net Cash Used by Financing Activities	<u>(89,709)</u>

Net Change in Cash and Cash Equivalents 1,562,701

Cash and Cash Equivalents, Beginning of Year 290,718

Cash and Cash Equivalents, End of Year \$ 1,853,419

See notes to financial statements

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

1. NATURE OF ORGANIZATION:

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

Adult Homes' principal revenue sources include support from the Tennessee Baptist Mission Board and Tennessee Baptist churches and church members, as well adult group homes operating in Jacksboro/Knoxville, Lebanon, and Hermitage, Tennessee. During the year ended October 31, 2020, total revenue from the Tennessee Baptist Mission Board Cooperative Program totaled \$290,072. 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. Adult Homes operated an adult independent living community, Williams Ferry Pointe (WFP), located in Lenoir City, which was sold during the year ended October 31, 2020.

Adult Homes is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, Adult Homes qualifies for charitable contribution deductions under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). However, income from certain activities not directly related to Adult Homes' tax-exempt purpose is subject to taxation as unrelated business income. Adult Homes 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). Adult Homes does not have any outstanding interest or penalties, and none have been recorded in the statement of activities for the year ended October 31, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared on the accrual basis of accounting. The significant accounting policies followed by Adult Homes are described below to enhance the usefulness of the financial statements to the reader. The preparation of 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 and disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Adult Homes considers all unrestricted highly-liquid investments with an initial maturity of three months or less to be cash equivalents. At October 31, 2020, Adult Homes' cash balances exceeded federally insured limits by \$1,683,390. Adult Homes does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

FUNDS HELD FOR OTHERS

Funds held for others consist of cash in checking accounts held for residents in Adult Homes' role as Representative Payee for residents who receive benefits from the Social Security Administration (SSA). These balances belong to the residents and are managed by Adult Homes. The SSA has various guidelines and restrictions on how funds may be spent, and they require regular reporting to the SSA. Should the resident no longer reside with Adult Homes, the funds would be returned to the resident.

CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of contributions from the Tennessee Baptist Mission Board, wherein churches send contributions to the Tennessee Baptist Mission Board, who then remit contributions monthly to Adult Homes, as well as other receivables. Management has no concerns regarding the collectability of these receivables; therefore, no allowance has been recorded.

INVESTMENTS

Investments consist of interests in the Tennessee Baptist Foundation's common funds, which are carried at the fair market value of the underlying investments.

PROPERTY AND EQUIPMENT

Items capitalized as property and equipment are recorded at cost or, if donated, at fair market value on the date of the gift. Purchases and donations of equipment in excess of \$1,000 are capitalized if the expected useful life exceeds one year. Donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, expirations of donor restrictions are reported when the donated or acquired assets are placed in service as instructed by the donor. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets ranging from three to twenty-eight years.

BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS

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

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS

The financial statements report amounts by class of net assets:

Without donor restrictions amounts are currently available at the discretion of the board of directors for use in operations.

With donor restrictions amounts are stipulated by donors for specific operating purposes or programs, with time restrictions, or not currently available for use until commitments regarding their use have been fulfilled.

REVENUE AND REVENUE RECOGNITION

Resident services revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Adult Homes has agreements with third-party payors that provide for payments to Adult Homes at amounts different from its established rates. Payment arrangements include reimbursed costs, discounted charges, and per diem payments. Resident services revenue is recognized in the reporting period in which the services are delivered. Net resident service fees consist of:

Resident service revenue	\$ 957,239
Less discounts provided to residents	<u>(155,566)</u>
Net resident service fees	<u>\$ 801,673</u>

Adult Homes recognizes support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to Adult Homes. Contributions include contributions from the Tennessee Baptist Mission Board. 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.

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

Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law.

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ALLOCATION OF EXPENSES BY NATURE AND FUNCTION

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

The statements of activities and functional expenses report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries, benefits, and payroll taxes are allocated directly to the function where time and effort are expended. All other expenses are allocated based on the direct benefit being received by either the program or management function. Total expense includes all operating expenses as well as the nonoperating expense of other components of net periodic post-retirement cost.

OPERATING AND NONOPERATING ACTIVITIES

The statement of activities presents the changes in net assets of Adult Homes from both operating activities and nonoperating activities. Operating revenues and expenses relate primarily to program services provided by Adult Homes. Activity with donor restrictions 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, and (c) change in value of beneficial interests in trusts held by others.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. Adult Homes adopted the provisions of this new standard during the year ended October 31, 2020. The new standard applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Adoption of this standard had no effect on change in net assets or net assets in total.

In 2016, FASB also issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. Adult Homes adopted the provisions of this new standard during the year ended October 31, 2020. The new standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Adoption of this standard had no effect on change in net assets or net assets in total.

In 2017, FASB also issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost*. Adult Homes adopted the provisions of this new standard during the year ended October 31, 2020. Adoption of this standard had no effect on the change in net assets by class or net assets in total.

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ADOPTED ACCOUNTING STANDARDS, continued

In 2018, FASB also issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Adult Homes adopted the provisions of this new standard during the year ended October 31, 2020. The new standard clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. Adoption of this standard had no effect on change in net assets or net assets in total.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following represents Adult Homes' financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

Financial assets:

Cash and cash equivalents	\$ 1,853,419
Contributions receivable	48,299
Investments	1,686,646
Funds held for others	86,399
Beneficial interest in trusts held by others	1,482,774
Financial assets, at year-end	<u>5,157,537</u>
Less those unavailable for general expenditure within one year due to:	
Board-designations	(549,159)
Contractual or donor-imposed restrictions:	
Funds held for others	(86,399)
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	(367,991)
Beneficial interests in trusts held by others	(1,482,774)
	<u>(2,486,323)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,671,214</u>

Adult Homes has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Adult Homes considers all expenditures related to its ongoing program activities and supporting activities to be included. Adult Homes also has two pre-approved available lines of credit for up to \$550,000, which could be drawn upon in the event of an unanticipated liquidity need. At October 31, 2020, \$0 was borrowed under these agreements. Additionally, the board-designated funds could be released through board approval for operating cash needs.

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

4. INVESTMENTS:

Investments consist entirely of interests in common funds of the Tennessee Baptist Foundation and are reported at fair value. Investments are held for the following purposes:

Investments held for operations	\$ 1,318,655
Investments held for endowment	<u>367,991</u>
	<u><u>\$ 1,686,646</u></u>

5. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consists of:

Land	\$ 500,225
Building and improvements	2,537,857
Furniture, fixtures, and equipment	<u>455,103</u>
	3,493,185
Less accumulated depreciation	<u>(2,552,960)</u>
Property and equipment—net	<u><u>\$ 940,225</u></u>

6. BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS:

Adult Homes records beneficial interests in trusts held by others at their fair value as reported by the trustee, Tennessee Baptist Foundation. At October 31, 2020, the fair values are as follows:

Beneficial interests in charitable remainder trusts	\$ 74,260
Beneficial interests in perpetual trusts	<u>1,408,514</u>
	<u><u>\$ 1,482,774</u></u>

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

7. NET ASSETS:

Net assets consist of:

Net assets without donor restrictions:

Undesignated	\$ 2,957,702
Board designated	549,159
	<u>3,506,861</u>

Net assets with donor restrictions:

Restricted by purpose or time:

Special Friends Camp	100,000
Disabilities ministry support fund	18,686
Medical needs	15,000
Nabi House	9,000
Accumulated earnings on endowments:	
Rainbow Acres	80,315
Father's Day Offering	41,840
Beneficial interests in charitable remainder trusts	74,260
Other miscellaneous	8,134
	<u>347,235</u>

Restricted in perpetuity:

Endowments	245,836
Perpetual trusts held by others	1,408,514
	<u>1,654,350</u>

Total net assets with donor restrictions	<u>2,001,585</u>
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Total net assets	<u>\$ 5,508,446</u>
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8. EMPLOYEE BENEFIT PLANS:

DEFINED CONTRIBUTION 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 participants' compensation for administrative division employees. For the non-administrative division, employee contributions of up to 6% are matched by Adult Homes. Retirement plan expense for the year ended October 31, 2020, was \$68,959.

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

8. EMPLOYEE BENEFIT PLANS, continued:

POST-RETIREMENT BENEFIT OBLIGATION

Under a separate program, Adult Homes also provides post-retirement health care and term life insurance benefits to certain Adult Homes employees provided they remain employed at Adult Homes until retirement. The program's current and future benefits are funded by net assets without donor restrictions. The status of the post-retirement benefit obligations of the program at October 31, 2020, is as follows:

A summary of the post-retirement benefit obligation is as follows:

Retired participants	\$ 149,274
Active fully eligible participants	216,012
Active other participants	<u>-</u>
	<u>\$ 365,286</u>

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

Post-retirement benefit obligation at beginning of year:	\$ 350,183
Net periodic post-retirement benefit costs	18,351
Post-retirement benefit related changes other than net periodic post-retirement benefit cost	5,362
Benefits paid	<u>(8,610)</u>
Post-retirement benefit obligation at end of year	<u>\$ 365,286</u>
Net periodic post-retirement benefit cost, included in functional expenses:	
Service cost	<u>\$ 4,509</u>
Interest cost	<u>13,842</u>
Net periodic post-retirement benefit cost other than service cost	<u>13,842</u>
Net periodic post-retirement benefit costs	<u>\$ 18,351</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.

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

8. EMPLOYEE BENEFIT PLANS, continued:

POST-RETIREMENT BENEFIT OBLIGATION, continued

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

Actuarial loss	<u>\$ 5,362</u>
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Assumptions:

Weighted average discount rate	4.00%
Mortality	RPH-2014 Total Table Proj MP-2017
Turnover	None
Salary Increase	3.00%
Healthcare trend	Medical (4.50%) Dental (2.5%)

Future benefits are expected to be paid as follows:

<u>Year Ended October 31,</u>	
2021	\$ 11,969
2022	12,259
2023	12,538
2024	12,826
2025	13,121
Thereafter	<u>302,573</u>
	<u>\$ 365,286</u>

9. RELATED PARTY TRANSACTIONS:

Adult Homes occupies office space in the Church Support Center owned by the 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 \$41,794 for the year ended October 31, 2020. During the year ended October 31, 2020, total revenue from the Tennessee Baptist Mission Board Cooperative Program totaled \$290,072, including a receivable of \$36,227 at October 31, 2020.

The Tennessee Baptist Foundation is an institution of the Tennessee Baptist Mission Board designated for the management of trust and endowment funds. Adult Homes participates in these trust funds and holds investments with the Foundation. As of October 31, 2020, the Tennessee Baptist Foundation administered \$1,482,774 of trusts in which Adult Homes holds a beneficial interest, and Adult Homes held \$1,686,646 in investments with them.

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

10. COMMITMENTS AND CONTINGENCIES:

PROGRAM SETTLEMENTS

Revenue from third-party payor programs (Social Security) accounts for a significant portion of net resident services revenue of Adult Homes. Laws and regulations governing these programs are extremely complex and subject to interpretation. Management believes Adult Homes is entitled to all amounts claimed on its cost reports and/or has provided adequate allowances for contractual adjustments and accounting estimates of current and future examination adjustments. The possibility of those recorded estimates changing due to final examination settlements is remote.

11. FAIR VALUE MEASUREMENTS:

The *Fair Value Measurements and Disclosure* topic of the FASB Accounting Standards Codification 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. Adult Homes uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, Adult Homes 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.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at October 31, 2020:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments:				
Interest in TBF common funds	\$ -	\$ 1,686,646	\$ -	\$ 1,686,646
Beneficial interests in trusts held by others	\$ -	\$ 74,260	\$ 1,408,514	\$ 1,482,774

Valuation techniques used in estimating fair values are as follows:

Interest in TBF common funds—The value of investments in common funds are based on the value of the Adult Homes' per share interest in the pooled fund as reported by the Tennessee Baptist Foundation. Adult Homes is able to redeem its investment in the pool at the reporting date.

Beneficial interest in trusts held by others—The fair value of interest in trusts held by others is estimated based upon the proportionate share of the trust's assets as represented by the trustee.

Changes in valuation techniques—None.

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

October 31, 2020

12. ENDOWMENTS:

As required by the *Endowment and Disclosure* topic of the FASB Accounting Standards Codification, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Adult Homes has two donor-restricted endowments established for the benefit of Rainbow Acres and the Father's Day Offering.

The board of directors of Adult Homes has interpreted the Tennessee Uniform Prudent Management of Institutional Funds Act (TUPMIFA) 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, Adult Homes includes 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 included in perpetuity is included as net assets with donor restrictions, restricted by purpose or time, until those amounts are appropriated for expenditure by Adult Homes in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, Adult Homes 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 Adult Homes 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 Adult Homes
7. The investment policies of Adult Homes

Endowment net asset composition by type of fund as of October 31, 2020:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Earnings	Original Gift	
Donor-restricted funds	\$ -	\$ 122,155	\$ 245,836	\$ 367,991

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

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12. ENDOWMENTS, continued:

Changes in endowment net assets for year ended October 31, 2020:

	Without Donor Restrictions	With Donor Restrictions		
		Accumulated Earnings	Original Gift	Total
Endowment net assets, beginning of year	\$ -	\$ 103,736	\$ 245,836	\$ 349,572
Investment return:				
Investment income	-	10,062	-	10,062
Net gains (realized and unrealized)	-	17,186	-	17,186
Total investment return	-	27,248	-	27,248
Amounts appropriated for expenditure	-	(8,829)	-	(8,829)
Endowment net assets, end of year	\$ -	\$ 122,155	\$ 245,836	\$ 367,991

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 TUPMIFA requires Adult Homes to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets without donor restrictions. There were no such deficiencies as of October 31, 2020.

Return Objectives and Risk Parameters—Adult Homes has adopted investment and spending policies for these particular endowment assets that attempt to provide a balance of yield and capital appreciation while distributing funds in a manner that meets the intent of the donor. These endowment assets include those assets of donor-restricted funds that Adult Homes must hold in perpetuity. Under this policy, the assets of this particular endowment are invested in a manner that is intended to preserve the balance of the endowment. Actual returns in any given year may vary.

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 Related 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.

TENNESSEE BAPTIST ADULT HOMES, INC.

Notes to Financial Statements

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13. RISKS AND UNCERTAINTIES:

As of October 31, 2020, Adult Homes was involved in a pending legal matter, which Adult Homes was in the process of disputing. In April 2021, the legal matter was settled in the amount of \$7,500. The amount of the settlement has been accrued as a liability and expense as of and for the year ended October 31, 2020.

14. PRIOR PERIOD ADJUSTMENT:

During the year ended October 31, 2020, management determined that the prior period records contained misstatements that required correction. The misstatements included entries to correct balances in endowments, trust assets, beneficial interests in trusts held by others, funds held for others, property and equipment, and net assets. Accordingly, prior period adjustments have been recorded to correct the errors. The effects of these adjustments on the beginning net assets without donor restrictions and net assets with donor restrictions as of November 1, 2019, and changes in net assets for the year ended October 31, 2019, were as follows:

	As Previously Stated	Prior Period Adjustment	As Restated
Net assets without donor restriction	<u>\$ 4,779,265</u>	<u>\$ 50,772</u>	<u>\$ 4,830,037</u>
Net assets with donor restriction	<u>\$ 1,516,439</u>	<u>\$ 331,040</u>	<u>\$ 1,847,479</u>
Changes in net assets	<u>\$ 135,730</u>	<u>\$ 51,292</u>	<u>\$ 187,022</u>

15. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through May 13, 2021, which represents the date the financial statements were available to be issued.