

**TENNESSEE BAPTIST
ADULT HOMES, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

OCTOBER 31, 2017

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, 2017, 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, 2017, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 24 - 25 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Adult Homes' 2016 financial statements, and our report dated December 13, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Crosslin, PLLC

Nashville, Tennessee
December 12, 2017

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2017
(with comparative totals for 2016)

<u>ASSETS</u>		
	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 399,705	\$ 226,553
Cash escrow - Williams Ferry Pointe (Note E)	62,519	115,350
Investments held by Tennessee Baptist Foundation (Note B)	576,272	541,812
Receivables:		
Patient receivables	226,290	143,648
Related party receivables	30,353	30,353
Accounts and notes receivable - other	146,897	72,717
Total receivables, no allowance considered necessary	<u>403,540</u>	<u>246,718</u>
Inventories	4,667	3,172
Prepaid expenses	22,545	32,589
Land, buildings and equipment, at cost, net (Notes C and D)	4,222,414	4,531,087
Completed homes available for sale (Note C)	979,600	979,600
Beneficial interests in trusts held by others (Note L)	1,124,164	1,065,869
Other assets	<u>30</u>	<u>30</u>
 Total assets	 <u><u>\$ 7,795,456</u></u>	 <u><u>\$ 7,742,780</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 304,180	\$ 233,603
Deferred revenue (Note E)	196,757	247,258
Other liabilities	53,750	-
Postretirement benefit liability (Note H)	371,260	326,516
Notes payable (Note D)	<u>2,094,734</u>	<u>1,643,462</u>
 Total liabilities	 <u>3,020,681</u>	 <u>2,450,839</u>
Net assets:		
Unrestricted:		
Board designated	307,645	207,876
Undesignated (Note O)	<u>3,008,212</u>	<u>3,680,952</u>
	3,315,857	3,888,828
Temporarily restricted (Notes M and O)	164,632	180,247
Permanently restricted (Notes M and O)	<u>1,294,286</u>	<u>1,222,866</u>
Total net assets	<u>4,774,775</u>	<u>5,291,941</u>
 Total liabilities and net assets	 <u><u>\$ 7,795,456</u></u>	 <u><u>\$ 7,742,780</u></u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2017
(with comparative totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted
Support, revenue and gains:			
Patient service revenue, net of allowance and contractual adjustments (Note G)	\$ 4,354,647	\$ -	\$ -
Allocations from the cooperative program of: Tennessee Baptist Mission Board	281,017	-	-
Contributions and gifts	267,532	115,468	-
Investment income and gains	13,080	50,159	71,420
Management fees - Deer Lake Retirement Village	2,775	-	-
Rental income	25,789	-	-
Stoneway revenue	276,780	-	-
Rainbow revenue	209,741	-	-
Knoxville revenue	405,592	-	-
Lake Park revenue	197,184	-	-
Other operating revenue	84,080	-	-
Net assets released from restrictions (Note N)	181,242	(181,242)	-
Total support, revenue and gains	6,299,459	(15,615)	71,420
Expenses and losses:			
Program services:			
Stoneway expense	402,589	-	-
Rainbow expense	375,397	-	-
Knoxville expense	425,017	-	-
Special Friend expense	174,214	-	-
Lake Park expense	268,687	-	-
Nursing services	2,699,225	-	-
Housekeeping services	71,229	-	-
Dietary services	485,501	-	-
Maintenance services	293,094	-	-
Special services	107,842	-	-
Depreciation	233,561	-	-
Total program services	5,536,356	-	-
General and administrative	1,336,074	-	-
Total expenses and losses	6,872,430	-	-
Change in net assets	(572,971)	(15,615)	71,420
Net assets at beginning of year	3,888,828	180,247	1,222,866
Net assets at end of year	\$ 3,315,857	\$ 164,632	\$ 1,294,286

Total	
2017	2016
\$ 4,354,647	\$ 4,667,570
281,017	306,507
383,000	537,550
134,659	12,726
2,775	5,670
25,789	20,382
276,780	278,280
209,741	223,546
405,592	372,719
197,184	198,189
84,080	71,624
-	-
6,355,264	6,694,763
402,589	367,262
375,397	404,114
425,017	387,993
174,214	162,592
268,687	227,116
2,699,225	2,742,061
71,229	73,877
485,501	489,758
293,094	292,681
107,842	138,956
233,561	237,368
5,536,356	5,523,778
1,336,074	1,429,009
6,872,430	6,952,787
(517,166)	(258,024)
5,291,941	5,549,965
\$ 4,774,775	\$ 5,291,941

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2017
(with comparative totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (517,166)	\$ (258,024)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	233,561	237,368
Net (gains) on investments and beneficial interests in trusts	(134,659)	(12,726)
Decrease in cash escrow	52,831	72,692
Increase in receivables	(156,822)	(3,473)
Decrease in prepaid assets and other assets	10,044	47,337
(Increase) decrease in inventory	(1,495)	13,770
Increase (decrease) in accounts payable and accrued liabilities	148,977	(22,598)
(Decrease) increase in deferred revenue, net	(50,501)	57,831
Increase in other liabilities	53,750	-
Increase in accrued post-retirement benefit	44,744	44,184
Net cash (used in) provided by operating activities	<u>(316,736)</u>	<u>176,361</u>
Cash flows from investing activities:		
Net disposals (purchases) of property and equipment	(3,288)	(275,051)
Net sales of investments	41,904	182,804
Net cash provided by (used in) investing activities	<u>38,616</u>	<u>(92,247)</u>
Cash flows from financing activities:		
Net change in lines of credit	75,000	-
Payments on notes payable	(23,728)	(187,700)
Proceeds from issuance of notes payable	400,000	204,198
Net cash provided by financing activities	<u>451,272</u>	<u>16,498</u>
Net change in cash	173,152	100,612
Cash and cash equivalents at beginning of year	<u>226,553</u>	<u>125,941</u>
Cash and cash equivalents at end of year	<u>\$ 399,705</u>	<u>\$ 226,553</u>
Additional information:		
Interest paid	<u>\$ 103,375</u>	<u>\$ 81,323</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2017
(with comparative totals for 2016)

	Program Services	General and Administrative	Total	
			2017	2016
Salaries	\$ 2,573,778	\$ 347,861	\$ 2,921,639	\$ 3,052,593
Employee benefits	484,880	136,322	621,202	639,918
Total salaries and related benefits	3,058,658	484,183	3,542,841	3,692,511
Advertising, marketing and recruitment	2,750	15,765	18,515	43,890
Bed taxes and licenses	452,040	-	452,040	527,449
Depreciation	233,561	-	233,561	237,368
Food supplies	314,439	-	314,439	331,663
Freight	4,280	-	4,280	5,011
Insurance	143,902	30,841	174,743	211,657
Interest	-	109,712	109,712	86,879
Laundry	68,733	-	68,733	72,629
Maintenance and repairs	37,614	11,301	48,915	37,447
Memberships, due and subscriptions	2,537	25,844	28,381	25,609
Miscellaneous	135,899	130,742	266,641	253,208
Professional and consulting services	7,376	129,140	136,516	45,109
Property taxes	-	35,610	35,610	37,305
Purchased services	423,409	302,861	726,270	625,208
Resident activities	15,120	-	15,120	26,808
Resident allowances	32,117	-	32,117	32,390
Special friends camps	84,056	-	84,056	79,011
Supplies	196,166	9,947	206,113	216,391
Training	3,040	1,202	4,242	12,021
Travel and auto	39,143	13,369	52,512	54,340
Uniforms	23	-	23	203
Utilities	281,493	35,557	317,050	298,680
Total	\$ 5,536,356	\$ 1,336,074	\$ 6,872,430	\$ 6,952,787
Percentages	<u>80.56%</u>	<u>19.44%</u>	<u>100.00%</u>	<u>100.00%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Tennessee Baptist Adult Homes, Inc. ("Adult Homes"), operates under the auspices of the Tennessee Baptist Mission Board. Its purpose, generally, is to provide specially designed housing facilities and services to the elderly and/or developmentally disabled.

Adult Homes' principal revenue sources, in addition to support from the Tennessee Baptist Mission Board, consist of operating an intermediate nursing care facility (Baptist Health Care Center) in Lenoir City, Tennessee; and 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 and Baptist Health Care Center, rental income from elderly housing at Baptist Village of Johnson City, and fees under sponsorship agreements (See Note F). Adult Homes is currently in the construction stage of an adult independent living community, Williams Ferry Pointe, located in Lenoir City.

Basis of Presentation

The financial statements of Adult Homes have been prepared on the accrual basis of accounting.

Adult 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 Adult 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 Adult Homes and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that are maintained permanently by Adult Homes. Generally, the donors of these assets permit Adult 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.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Financial Totals

The financial information shown for fiscal year 2016 in the accompanying statement of financial position, and statements of activities, cash flows and functional expenses is included to provide a basis for comparison with fiscal year 2017.

Contributions

Adult 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.

Adult 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, Adult Homes reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Inventories

Inventories consist principally of dietary items and general supplies of Baptist Health Care Center and are priced at lower of cost (first-in, first-out method) or market.

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, 2017
(with comparative total for 2016)

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, 2017 and 2016, 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, 2017
(with comparative total for 2016)

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 P). 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.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered. Adult Homes participates in the Medicaid program.

The Medicaid program reimburses Adult Homes for the cost of intermediate care services rendered to Medicaid beneficiaries at a prospective rate which is based on the lower of the reimbursable cost of services rendered to intermediate care beneficiaries or a reimbursement cap established by Medicaid. The reimbursement cap is expressed as a per diem amount.

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.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

B. INVESTMENTS HELD BY THE TENNESSEE BAPTIST FOUNDATION

Investments at October 31 are summarized as follows:

	<u>Total 2017</u>		<u>Total 2016</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual funds	\$430,657	\$339,482	\$393,224	\$335,415
Stock	-	-	105,280	100,501
Fixed income	<u>145,615</u>	<u>146,794</u>	<u>43,308</u>	<u>45,680</u>
	<u>\$576,272</u>	<u>\$486,276</u>	<u>\$541,812</u>	<u>\$481,596</u>

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

	<u>Total</u>	
	<u>2017</u>	<u>2016</u>
	<u>Market</u>	<u>Market</u>
Unrestricted	\$241,518	\$204,568
Temporarily restricted	87,918	90,408
Permanently restricted	<u>246,836</u>	<u>246,836</u>
	<u>\$576,272</u>	<u>\$541,812</u>

Income and gains on investments owned by Adult Homes and beneficial interests in trusts held by others amounted to \$134,659 and \$12,726 for the years ended October 31, 2017 and 2016, respectively. This income and gains represent a yield of 8.14% and .75% based on the average market of such investments and beneficial interests in trusts held by others for fiscal year 2017 and 2016, respectively.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

C. LAND, BUILDINGS AND EQUIPMENT

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

	October 31,	
	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 1,196,178	\$ 1,196,178
Buildings	5,037,670	5,037,670
Building improvements	1,215,951	1,229,331
Leasehold improvements	2,185	2,185
Furniture, equipment and automotive equipment	1,180,384	1,172,974
Construction in progress	<u>1,623,822</u>	<u>1,692,964</u>
	10,256,190	10,331,302
Less accumulated depreciation	<u>(6,033,776)</u>	<u>(5,800,215)</u>
	<u>\$ 4,222,414</u>	<u>\$ 4,531,087</u>

Construction in progress is composed of certain unallocated infrastructure and engineering costs for the Williams Ferry Pointe adult independent living project. These remaining costs will be allocated to future home construction when completed. At October 31, 2017, three single homes, two units of a quad-plex and one unit of a duplex are held for sale and are classified on the statement of financial position as completed homes available for sale.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

D. NOTES PAYABLE

Following is a summary of notes payable as of October 31:

	<u>2017</u>	<u>2016</u>
Note payable to bank under a \$1,500,000 revolving line-of-credit. Interest is paid monthly at the prime rate plus 1.75%, but not less than 5.00% and not more than 18.00% (6.0% at October 31, 2017) through May 2018, at which time all outstanding interest and principal is due. The note is collateralized by a deed of trust on certain property.	\$1,479,118	\$1,494,492
Note payable to TBF bearing interest at 4.0%. Interest is payable quarterly and full payment is due on demand. The note is collateralized by a deed of trust on certain property.	400,000	-
Note payable to bank under a \$200,000 revolving line-of-credit. Interest is payable monthly at a variable interest rate (5.25% at October 31, 2017) and is due on demand. Available borrowings at October 31, 2017 were \$55,000. The line-of-credit is unsecured.	145,000	70,000
Note payable to bank, payable in monthly installments of \$591, bearing interest at the bank's prime rate plus 2.25% (6.5% at October 31, 2017) through July 2024. The note is collateralized by a deed of trust on certain property.	39,141	43,906
Note payable to bank in monthly installments of \$436, bearing interest at the bank's prime rate plus 1.25% (5.5% at October 31, 2017) through March 10, 2025. The note is collateralized by a deed of trust on certain property	<u>31,475</u>	<u>35,064</u>
Total	<u>\$2,094,734</u>	<u>\$1,643,462</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

D. NOTES PAYABLE - Continued

Maturities of the notes payable are as follows:

<u>Year Ending October 31,</u>	<u>Amount</u>
2018	\$2,032,678
2019	9,043
2020	9,553
2021	10,092
2022	10,661
Thereafter	<u>22,707</u>
	<u>\$2,094,734</u>

E. DEFERRED REVENUE

Adult Homes is currently collecting membership and lease agreement fees from future residents of the Williams Ferry Pointe adult independent living community, which qualifies as a continuing-care retirement community.

Membership fees represent a one-time fee paid by each future resident of the community in the amount of \$2,000. As of October 31, 2017 and 2016, Adult Homes reported as deferred revenue membership fees in the amount of \$8,000 and \$18,000, respectively.

Lease agreement fees represent a one-time fee made by each future homeowner for the lease of land on which each home will be constructed. The fee is generally earned by Adult Homes over a four-year period, except in the case of a lifetime lease. A pro-rata refund is available to homeowners who leave the community prior to the end of the four-year period. As of October 31, 2017 and 2016, Adult Homes reported as deferred revenue lease agreement fees in the amount of \$34,857 and \$75,358, respectively. The fees are in connection with a lifetime lease and are amortized over the life expectancy of the lessee. Deferred revenue also includes a deposit totaling \$153,900 made by the purchaser of a home for which the sale had not closed as of October 31, 2017 or 2016.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

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 \$473 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. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2017</u>	<u>2016</u>
Patient service revenue	\$ 4,508,066	\$ 4,834,079
Less contractual adjustments	<u>(153,419)</u>	<u>(166,509)</u>
	<u>\$ 4,354,647</u>	<u>\$ 4,667,570</u>

Approximately 52% and 53% of patient revenue is from Medicaid for the years ended October 31, 2017 and 2016, respectively.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

H. 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>2017</u>	<u>2016</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 326,516	\$ 282,332
Net periodic postretirement benefit cost	47,006	46,446
Actual benefit disbursements	<u>(2,262)</u>	<u>(2,262)</u>
Benefit obligation at the end of year	<u>\$ 371,260</u>	<u>\$ 326,516</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	2,262	2,262
Actual benefit disbursements	<u>(2,262)</u>	<u>(2,262)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$371,260</u>	<u>\$326,516</u>
Net postretirement benefit liability recognized in statements of financial position	<u>\$371,260</u>	<u>\$326,516</u>

The net periodic postretirement benefit cost recognized during the years ended October 31, 2017 and 2016 was \$47,006 and \$46,446, 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%. In addition, assumed discount rates were 5%.

At October 31, 2017 and 2016, Adult Homes' assets with a fair value totaling \$77,702 and \$69,030, respectively have been designated to fund the obligation.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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I. RETIREMENT PLAN

Adult Homes and Baptist Health Care Center participate 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. Baptist Health Care Center provides a contribution-matching program to its employees. Pension expense for the years ended October 31, 2017 and 2016, was \$60,164 and \$57,868, respectively.

J. RELATED PARTY TRANSACTIONS

Adult Homes occupies office space in the Tennessee Baptist Mission Board building in Franklin, Tennessee. Adult Homes pays the Mission Board an annual use charge for the facilities, which amounted to \$25,822 and \$20,445 for fiscal 2017 and 2016, respectively.

K. 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, 2017 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.

L. BENEFICIAL INTERESTS IN TRUSTS HELD BY OTHERS

Beneficial interest in trusts held by others were \$1,124,164 and \$1,065,869 at October 31, 2017 and 2016, respectively. These funds name Adult Homes as a beneficiary and are held by the Tennessee Baptist Foundation.

M. NET ASSETS

Temporarily restricted net assets at October 31, 2017 and 2016 are available for program services. Permanently restricted net assets at October 31, 2017 and 2016 consist of endowment funds and Adult Homes' beneficial interests in perpetual trusts held by others.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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(with comparative total for 2016)

N. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$181,242 and \$224,324, for fiscal 2017 and 2016, respectively, were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. The purpose restrictions accomplished were for program services.

O. ENDOWMENT

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 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 Adult Homes in a manner consistent with the standard of prudence prescribed by applicable state laws.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2017:</u>				
Donor-restricted endowment funds	\$27,605	\$72,028	\$ 246,836	\$ 346,469
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>-</u>	<u>1,047,450</u>	<u>1,047,450</u>
Total funds	<u>\$27,605</u>	<u>\$72,028</u>	<u>\$1,294,286</u>	<u>\$1,393,919</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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(with comparative total for 2016)

O. ENDOWMENT - Continued

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2016:</u>				
Donor-restricted endowment funds	\$17,943	\$77,362	\$ 246,836	\$ 342,141
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>-</u>	<u>976,030</u>	<u>976,030</u>
Total funds	<u>\$17,943</u>	<u>\$77,362</u>	<u>\$1,222,866</u>	<u>\$1,318,171</u>

Changes in Endowment Net Assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, November 1, 2015	\$ 17,837	\$ 73,827	\$ 1,256,427	\$ 1,348,091
Investment return:				
Investment income	115	57,059	-	57,174
Net appreciation (depreciation) (realized and unrealized)	<u>101</u>	<u>1,834</u>	<u>(33,561)</u>	<u>(31,626)</u>
Total investment return	<u>216</u>	<u>58,893</u>	<u>(33,561)</u>	<u>25,548</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>(110)</u>	<u>(55,358)</u>	<u>-</u>	<u>(55,468)</u>
Endowment net assets, October 31, 2016	17,943	77,362	1,222,866	1,318,171
Investment return:				
Investment income	792	54,524	-	55,316
Net appreciation (depreciation) (realized and unrealized)	<u>9,006</u>	<u>(7,209)</u>	<u>71,420</u>	<u>73,217</u>
Total investment return	<u>9,798</u>	<u>47,315</u>	<u>71,420</u>	<u>128,533</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>(136)</u>	<u>(52,649)</u>	<u>-</u>	<u>(52,785)</u>
Endowment net assets, October 31, 2017	<u>\$ 27,605</u>	<u>\$ 72,028</u>	<u>\$ 1,294,286</u>	<u>\$ 1,393,919</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

O. 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, 2017.

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.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

P. 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, 2017 and 2016:

	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>2017:</u>				
Investments:				
Mutual funds	\$ 430,657	\$430,657	\$ -	\$ -
Fixed income	<u>145,615</u>	<u>145,615</u>	<u>-</u>	<u>-</u>
Total investments	576,272	576,272	-	-
Beneficial interests in trusts held by others	\$1,124,164	\$ -	\$1,124,164	\$ -
<u>2016:</u>				
Investments:				
Mutual funds	\$ 393,224	\$393,224	\$ -	\$ -
Stocks	105,280	105,280	-	-
Fixed income	<u>43,308</u>	<u>43,308</u>	<u>-</u>	<u>-</u>
Total investments	541,812	541,812	-	-
Beneficial interests in trusts held by others	\$1,065,869	\$ -	\$1,065,869	\$ -

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.

Patient Receivables, Accounts and Notes Receivable

Patient receivables, accounts and notes receivable consist primarily of short-term receivables from Medicaid, residents and Deer Lake Retirement Village. The notes receivable are not readily marketable. Adult Homes has estimated fair value to be their carrying value.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017
(with comparative total for 2016)

P. 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 B and L, 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.

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.

Q. 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, 2017 and 2016 were \$19,312 and \$40,193, respectively.

R. 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.

Baptist Health Care Center is in negotiations with a third party to sell the nursing facility for approximately \$3.4 million. The sale is expected to close in December 2017.

S. SUBSEQUENT EVENTS

Adult Homes has evaluated subsequent events through December 12, 2017, the date the financial statements were available to be issued, and have determined that there are no subsequent events that required disclosure.

SUPPLEMENTARY INFORMATION

TENNESSEE BAPTIST ADULT HOMES, INC.
COMBINING SCHEDULE - STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2017

	<u>ASSETS</u>			
	Tennessee Baptist Adult Homes	Baptist Health Care Center (A Division of TBAH)	Eliminations	Total
Cash and cash equivalents	\$ 93,322	\$ 306,383	\$ -	\$ 399,705
Cash escrow - Williams Ferry Pointe	-	62,519	-	62,519
Investments held by Tennessee Baptist Foundation	576,272	-	-	576,272
Receivables:				
Patient receivables	-	226,290	-	226,290
Related party receivables	633,663	-	(603,310)	30,353
Accounts and notes receivable - other	364,765	-	(217,868)	146,897
Total receivables	<u>998,428</u>	<u>226,290</u>	<u>(821,178)</u>	<u>403,540</u>
Inventories	-	4,667	-	4,667
Prepaid expenses	12,877	9,668	-	22,545
Land, buildings and equipment, at cost, net	1,196,725	3,025,689	-	4,222,414
Completed homes available for sale	-	979,600	-	979,600
Beneficial interests in trusts held by others	1,124,164	-	-	1,124,164
Other assets	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
Total assets	<u>\$ 4,001,788</u>	<u>\$ 4,614,846</u>	<u>\$ (821,178)</u>	<u>\$ 7,795,456</u>
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 62,121	\$ 459,927	\$ (217,868)	\$ 304,180
Deferred revenue	-	196,757	-	196,757
Other liabilities	-	53,750	-	53,750
Postretirement benefit liability	371,260	-	-	371,260
Notes payable	545,000	2,153,044	(603,310)	2,094,734
Total liabilities	<u>978,381</u>	<u>2,863,478</u>	<u>(821,178)</u>	<u>3,020,681</u>
Net assets:				
Unrestricted:				
Board designated	307,645	-	-	307,645
Undesignated	1,256,844	1,751,368	-	3,008,212
	<u>1,564,489</u>	<u>1,751,368</u>	<u>-</u>	<u>3,315,857</u>
Temporarily restricted	164,632	-	-	164,632
Permanently restricted	1,294,286	-	-	1,294,286
Total net assets	<u>3,023,407</u>	<u>1,751,368</u>	<u>-</u>	<u>4,774,775</u>
Total liabilities and net assets	<u>\$ 4,001,788</u>	<u>\$ 4,614,846</u>	<u>\$ (821,178)</u>	<u>\$ 7,795,456</u>

See accompanying independent auditor's report.

TENNESSEE BAPTIST ADULT HOMES, INC.
COMBINING SCHEDULE - STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2017

	#	Tennessee Baptist Adult Home	#	Baptist Health Care Center (A Division of TBAH)	Eliminations	Total
Support, revenue and gains:						
Patient service revenue, net of allowances and contractual adjustments	\$	-	\$	4,354,647	\$	-
Allocations from the cooperative program of Tennessee Baptist Mission Board		281,017		-	-	281,017
Contributions and gifts		382,425		575	-	383,000
Investment income and gains		134,659		-	-	134,659
Management fees - Deer Lake Retirement Village		2,775		-	-	2,775
Rental income		25,789		-	-	25,789
Stoneway revenue		276,780		-	-	276,780
Rainbow revenue		209,741		-	-	209,741
Knoxville revenue		405,592		-	-	405,592
Lake Park revenue		197,184		-	-	197,184
Other operating revenue		-		84,080	-	84,080
Total support, revenue and gains		1,915,962		4,439,302	-	6,355,264
Expenses and losses:						
Program services:						
Stoneway expense		402,589		-	-	402,589
Rainbow expense		375,397		-	-	375,397
Knoxville expense		425,017		-	-	425,017
Special Friend expense		174,214		-	-	174,214
Lake Park expense		268,687		-	-	268,687
Nursing services		-		2,699,225	-	2,699,225
Housekeeping services		-		71,229	-	71,229
Dietary services		-		485,501	-	485,501
Maintenance services		-		293,094	-	293,094
Special services		-		107,842	-	107,842
Depreciation		102,068		131,493	-	233,561
Total program services		1,747,972		3,788,384	-	5,536,356
General and administrative		428,837		907,237	-	1,336,074
Total expenses and losses		2,176,809		4,695,621	-	6,872,430
Change in net assets		(260,847)		(256,319)	-	(517,166)
Net assets at beginning of year		3,284,254		2,007,687	-	5,291,941
Net assets at end of year	\$	3,023,407	\$	1,751,368	\$	-

See accompanying independent auditor's report.