

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

FINANCIAL STATEMENTS

OCTOBER 31, 2007

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Tennessee Baptist Children's Homes, Inc. ("Children's Homes") as of October 31, 2007, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Tennessee Baptist Children's Homes, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Baptist Children's Homes, Inc., as of October 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note F to the financial statements, the Children's Homes adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which changed its method of accounting for postretirement benefits effective for the year ended October 31, 2007.

Crosslin, Vaden & Associates, P.C.

November 30, 2007
Nashville, Tennessee

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2007
(with comparative totals for 2006)

	<u>ASSETS</u>	
	October 31,	
	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 457,329	\$ 271,901
Investments (Note B)	1,002,035	861,488
Investments held by Tennessee Baptist Foundation (Note B)	14,385,023	15,203,741
Accrued income receivable	104,626	147,791
Notes receivable (Note D)	119,220	196,082
Prepaid expenses and other assets	274,002	237,412
Property held for sale	24,310	23,575
Funds held in custody for children	60,945	28,746
Deposits held by others	187,751	181,441
Beneficial interests in trusts held by trustees (Note M)	11,133,492	10,812,667
Property, buildings and equipment, net (Note C)	<u>9,767,274</u>	<u>9,579,665</u>
Total assets	<u>\$37,516,007</u>	<u>\$37,544,509</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes F, G and I)	\$ 2,118,848	\$ 1,643,474
Funds held in custody for children	<u>60,945</u>	<u>28,746</u>
Total liabilities	<u>2,179,793</u>	<u>1,672,220</u>
<u>NET ASSETS</u>		
Unrestricted (Note K):		
Invested in property	\$ 8,047,563	\$ 7,859,953
Designated for operating reserve	2,709,695	2,893,966
Designated for operations	2,809,150	2,752,901
Designated for East Tennessee	<u>1,379,289</u>	<u>1,771,906</u>
	<u>14,945,697</u>	<u>15,278,726</u>
Temporarily restricted:		
Program services	2,330,126	2,853,382
Property, building and equipment purchases	2,471,716	2,481,363
Invested in property	1,719,711	1,719,711
Residual trusts held by trustees (Note M)	<u>475,811</u>	<u>459,534</u>
	<u>6,997,364</u>	<u>7,513,990</u>
Permanently restricted:		
Endowment	2,735,472	2,726,439
Perpetual trusts held by trustees (Note M)	<u>10,657,681</u>	<u>10,353,134</u>
	<u>13,393,153</u>	<u>13,079,573</u>
Total net assets	<u>35,336,214</u>	<u>35,872,289</u>
Total liabilities and net assets	<u>\$37,516,007</u>	<u>\$37,544,509</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2007
(with comparative totals for 2006)

	Total	
	2006	2007
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,348,731	\$ 1,343,375
Contributions	3,920,157	3,581,362
Contributions of beneficial interests in trusts held by trustees	261,856	52,477
Fundraising events	161,276	205,527
Bequests	641,045	163,392
Income from trusts	364,858	409,705
Noncash gifts	298,681	217,150
Noncash gifts - fund raising events	30,367	18,592
Net assets released from restrictions (Note L)	-	-
Total support	<u>7,026,971</u>	<u>5,991,580</u>
Revenue:		
Investment income	584,477	563,847
Investment gains	463,809	551,339
Investment gains on funds held by trustees	295,641	274,084
Adoption services fees	4,100	200
Child support payments	15,072	17,314
Rental income	118,403	114,688
Gain on sale of properties and equipment	86,560	-
Other	50,704	66,710
Total revenue	<u>1,618,766</u>	<u>1,588,182</u>
Total support and revenue	<u>8,645,737</u>	<u>7,579,762</u>
Expenses:		
Program services	6,282,711	6,168,466
Supporting services	<u>1,657,398</u>	<u>1,726,511</u>
Total expenses	<u>7,940,109</u>	<u>7,894,977</u>
Increase (decrease) in net assets before effect of adoption of SFAS No. 158	705,628	(315,215)
Effect of adoption of recognition provisions of SFAS No. 158 (Note F)	<u>-</u>	<u>(220,860)</u>
Total increase (decrease) in net assets	705,628	(536,075)
Net assets at beginning of year	<u>35,166,661</u>	<u>35,872,289</u>
Net assets at end of year	<u>\$35,872,289</u>	<u>\$ 35,336,214</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,343,375	\$ -	\$ -
3,134,137	444,034	3,191
-	-	52,477
-	205,527	-
157,986	5,406	-
243,338	160,525	5,842
-	217,150	-
-	18,592	-
<u>1,664,272</u>	<u>(1,664,272)</u>	<u>-</u>
<u>6,543,108</u>	<u>(613,038)</u>	<u>61,510</u>
518,290	45,557	-
522,498	28,841	-
-	22,014	252,070
200	-	-
17,314	-	-
114,688	-	-
-	-	-
<u>66,710</u>	<u>-</u>	<u>-</u>
<u>1,239,700</u>	<u>96,412</u>	<u>252,070</u>
<u>7,782,808</u>	<u>(516,626)</u>	<u>313,580</u>
6,168,466	-	-
<u>1,726,511</u>	<u>-</u>	<u>-</u>
<u>7,894,977</u>	<u>-</u>	<u>-</u>
(112,169)	(516,626)	313,580
<u>(220,860)</u>	<u>-</u>	<u>-</u>
(333,029)	(516,626)	313,580
<u>15,278,726</u>	<u>7,513,990</u>	<u>13,079,573</u>
<u>\$ 14,945,697</u>	<u>\$ 6,997,364</u>	<u>\$13,393,153</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2007
(with comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$(536,075)	\$ 705,628
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Investment gains	(551,339)	(463,809)
Investment gains on funds held by trustees	(384,842)	(295,641)
Depreciation	625,260	621,610
Gifts in-kind	(7,500)	(55,947)
Provision for postretirement benefit obligation and adoption of SFAS 158 (Note F)	220,860	-
Decrease (increase) in accrued income receivable	43,165	(31,671)
(Increase) decrease in prepaid expenses and other assets	(36,590)	58,318
Increase in deposits held by others	(6,310)	(40,563)
Decrease (increase) in beneficial interests in trusts	55,884	(261,856)
Increase in property held for sale	(735)	(23,575)
Increase in accounts payable and accrued liabilities	<u>254,513</u>	<u>133,916</u>
Net cash (used in) provided by operating activities	<u>(323,709)</u>	<u>346,410</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	8,134	8,134
Purchases of property and equipment	(805,369)	(645,144)
Purchases of investments	(234,447)	(5,396,799)
Proceeds from sale of properties and equipment	-	53,607
Proceeds from sales of investments and property held for sale	1,463,957	5,311,277
Decrease in notes receivable	<u>76,862</u>	<u>102,777</u>
Net cash provided by (used in) investing activities	<u>509,137</u>	<u>(566,148)</u>
Net increase (decrease) in cash and cash equivalents	185,428	(219,738)
Cash and cash equivalents:		
Beginning of year	<u>271,901</u>	<u>491,639</u>
End of year	<u>\$ 457,329</u>	<u>\$ 271,901</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2007
(with comparative totals for 2006)

Total			Program
2006	2007		Services
\$3,007,724	\$3,116,237	Salaries	\$2,328,196
911,121	990,892	Annuity and group insurance	750,892
200,946	218,352	Social security and benefits	170,691
99,917	82,677	Worker's compensation insurance	68,731
33,749	34,303	Houseparent's' incentives	34,303
4,253,457	4,442,461	Total salaries and related benefits	3,352,813
27,743	10,904	Activities	10,904
1,070	300	Adoption services	300
30,921	31,895	Allowance and work program	31,895
4,079	4,292	Background verification	4,292
21,629	14,295	Board meetings	-
40,947	18,990	Summer vacations	18,990
75,445	45,735	Christmas and birthday gifts	45,735
55,079	49,454	Clothing	49,454
26,365	24,474	Data communications	22,110
11,992	16,060	Dues and memberships	9,964
44,845	38,061	Equipment	28,297
75,735	66,762	Event costs	-
6,462	5,247	Family ministries	5,247
38,652	33,700	Farm	33,700
309,110	319,487	Food	319,487
30,573	35,955	Foster homes	35,955
225,629	257,373	Insurance	231,822
357,913	242,837	Maintenance	241,786
79,036	65,839	Medical	65,839
15,661	24,957	Miscellaneous	22,692
40,905	12,481	Mission projects	12,481
4,651	2,310	Mother's aid	2,310
60,673	51,768	Office	34,188
30,537	44,664	Postage	12,008
162,668	179,588	Printing and publicity	-
27,799	21,752	Professional services - legal	14,307
58,093	58,138	Professional services - non legal	-
71,109	67,937	Public relations services	367
63,592	57,981	Recreation	57,981
3,324	3,594	Rent	3,594
193,924	185,377	School and education	185,377
26,042	17,922	Spiritual enrichment and training	9,745
110,543	104,637	Supplies	104,637
9,295	11,999	Taxes	11,999
81,158	83,485	Telephone	67,679
44,209	42,001	Travel	17,980
422,107	408,245	Utilities	400,808
111,752	106,170	Vehicle fuel	91,405
63,775	60,590	Vehicle maintenance and repair	56,122
7,318,499	7,269,717	Total expenses before depreciation	5,614,270
621,610	625,260	Depreciation of buildings and equipment	554,196
\$7,940,109	\$7,894,977	Total expenses	\$6,168,466
100%	100%	Percentages	78.1%

<u>Supporting Services</u>		
<u>Management and General</u>	<u>Development</u>	<u>Total</u>
\$520,678	\$ 267,363	\$ 788,041
176,082	63,918	240,000
34,167	13,494	47,661
8,807	5,139	13,946
-	-	-
739,734	349,914	1,089,648
-	-	-
-	-	-
-	-	-
-	-	-
14,295	-	14,295
-	-	-
-	-	-
-	-	-
885	1,479	2,364
3,834	2,262	6,096
9,764	-	9,764
-	66,762	66,762
-	-	-
-	-	-
-	-	-
21,226	4,325	25,551
606	445	1,051
-	-	-
1,527	738	2,265
-	-	-
-	-	-
10,329	7,251	17,580
6,928	25,728	32,656
-	179,588	179,588
7,445	-	7,445
54,053	4,085	58,138
-	67,570	67,570
-	-	-
-	-	-
-	-	-
4,074	4,103	8,177
-	-	-
-	-	-
9,321	6,485	15,806
13,967	10,054	24,021
3,726	3,711	7,437
10,600	4,165	14,765
2,619	1,849	4,468
914,933	740,514	1,655,447
68,538	2,526	71,064
<u>\$983,471</u>	<u>\$743,040</u>	<u>\$1,726,511</u>
<u>12.5%</u>	<u>9.4%</u>	<u>21.9%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007
(with comparative totals for 2006)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Tennessee Baptist Children's Homes, Inc., (the "Children's Homes") is operated under the auspices of the Tennessee Baptist Convention to provide residential care to orphaned, neglected and abused children. The significant accounting principles and practices followed by the Children's Homes are presented below.

Accrual Basis and Financial Statement Presentation

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

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

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

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

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

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Children's Homes considers all cash and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Children's Homes considers any funds invested with the Tennessee Baptist Foundation to be investments, considering the intent of their investing activities.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007
(with comparative totals for 2006)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Financial Statements

The financial information shown for fiscal year 2006 in the accompanying statement of financial position, statement of activities, statement of cash flows and statement of functional expenses is included to provide a basis for comparison with fiscal year 2007.

Investments

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

Contributions

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

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

Property, Buildings and Equipment

Property, buildings, improvements, furniture, equipment and vehicles, are stated in the accompanying statement of financial position at cost, or if contributed, at fair market value at date of gift.

Depreciable assets are depreciated using the straight-line method over their estimated useful lives.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007
(with comparative totals for 2006)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated Materials and Services

Donated materials and certain services are included in the accompanying financial statements at their fair market value at date of receipt.

Income Taxes

The Children's Homes is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the accompanying financial statements.

Use of Estimates in the Preparation of Financial Statements

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

Funds Held in Trust for Others

Consistent with its charter powers and purposes, the Children's Homes, as trustee, holds certain funds totaling \$637,556 and \$646,483 at October 31, 2007 and 2006 respectively in accordance with the terms of various trust instruments in which the Children's Homes may have an actual or potential interest. The trusteed assets and liabilities are eliminated for reporting purposes. Any residual values which may be received by the Children's Homes have been recorded as beneficial interests in trusts at their respective fair market values (Note M).

Pledges

The Children's Homes at October 31, 2007 had no unconditional pledges.

Fair Value of Financial Instruments

The carrying value of cash, receivables, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007
(with comparative totals for 2006)

B. INVESTMENTS

Investments at October 31, 2007 and 2006 were as follows:

	<u>Investments Held By</u>		<u>Total 2007</u>		<u>Total 2006</u>	
	<u>TBF</u>	<u>Children's Homes</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual Funds	\$13,385,023	\$ 501,766	\$13,886,789	\$12,537,981	\$12,049,371	\$11,230,892
United States Government Securities	1,000,000	-	1,000,000	1,000,000	3,489,805	3,500,000
Certificates of Deposit	-	491,994	491,994	492,089	491,860	492,000
REIT	-	-	-	-	26,600	10,600
Insurance Policy	-	8,275	8,275	8,275	7,593	7,593
	<u>\$14,385,023</u>	<u>\$1,002,035</u>	<u>\$15,387,058</u>	<u>\$14,038,345</u>	<u>\$16,065,229</u>	<u>\$15,241,085</u>

Investments at October 31, 2007 and 2006 for each class of net assets were as follows:

	<u>Investment Held By</u>		<u>Total</u>	
	<u>TBF</u>	<u>Children's Homes</u>	<u>2007 (Market)</u>	<u>2006 (Market)</u>
Unrestricted	\$ 9,464,266	\$ 639,057	\$10,103,323	\$10,734,205
Temporarily restricted	2,345,646	212,011	2,557,657	2,614,296
Permanently restricted	<u>2,575,111</u>	<u>150,967</u>	<u>2,726,078</u>	<u>2,716,728</u>
	<u>\$14,385,023</u>	<u>\$1,002,035</u>	<u>\$15,387,058</u>	<u>\$16,065,229</u>

Interest and dividends earned on investments owned by the Children's Homes amounted to \$551,403 and \$561,557 for the years ended October 31, 2007 and 2006, respectively. This income represents yields of 3.9% and 3.7% based on the cost of such investments, and 3.7% and 3.6% based on the market of such investments for fiscal 2007 and 2006, respectively.

The total return (income yield plus investment gains and losses) on investments owned by the Children's Homes was 7.7% and 6.7% based on the cost of such investments, and 7.2% and 6.6% based on the market of such investments for fiscal years 2007 and 2006, respectively.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007
(with comparative totals for 2006)

B. INVESTMENTS - Continued

The Tennessee Baptist Foundation ("TBF") serves as the fiscal agent for certain investments in accordance with investment decisions made by the Children's Homes. The Foundation transfers the income from the investments to the Children's Homes.

C. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment at October 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 2,929,728	\$ 2,928,573
Buildings	12,549,439	12,488,441
Furnishings and equipment	1,324,140	1,320,140
Improvements other than buildings	1,228,614	1,073,901
Other machinery and equipment	591,241	664,494
Vehicles	1,005,468	1,086,735
Construction in progress (estimated cost to complete at October 31, 2007 - \$1,285,000)	<u>520,712</u>	<u>112,075</u>
Total plant facilities	20,149,342	19,674,359
Less accumulated depreciation	<u>(10,382,068)</u>	<u>(10,094,694)</u>
Net investment in plant	<u>\$ 9,767,274</u>	<u>\$ 9,579,665</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007
(with comparative totals for 2006)

D. NOTES RECEIVABLE

Notes receivable at October 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Note receivable from an unrelated party due in monthly installments of \$8,833 including interest at 8.25% (rate is equal to prime rate as published in the Wall Street Journal adjusted annually on note anniversary date) through December 2008.	\$116,770	\$196,082
Note receivable - other	<u>2,450</u>	<u>-</u>
	<u>\$119,220</u>	<u>\$196,082</u>

Notes receivable are collateralized by deeds of trust or title liens. The maturities on notes receivable at October 31, 2007 are as follows:

<u>Year Ending October 31</u>	<u>Amount</u>
2008	\$102,639
2009	15,331
2010	600
2011	600
2012	<u>50</u>
	<u>\$119,220</u>

E. LEASES

The Children's Homes leases certain property on an annual basis with lease expense for fiscal 2007 and 2006 totaling \$3,324 and \$3,324, respectively.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007
(with comparative totals for 2006)

F. POSTRETIREMENT BENEFITS

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

Effective for the year ended October 31, 2007, the Children's Homes adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans*, which requires the Children's Homes to now recognize in its statement of financial position the over-funded or under-funded status of the postretirement benefits plan. Under the provisions of the statement, actuarial and experience gains and losses and unrecognized prior service costs which were deferred over the remaining service period under SFAS 106, are required to be recognized on the statement of financial position with a separate expense on the statement of activities.

The adoption of the statement resulted in an increase in the postretirement benefits liability and a decrease in the change in unrestricted net assets of \$220,860 for the year ended October 31, 2007. The status of the plan at October 31, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,093,328	\$ 1,053,384
Service cost	34,148	34,304
Interest cost	73,681	58,905
Loss due to plan experience	220,860	-
Actual benefit disbursements	<u>(57,702)</u>	<u>(53,265)</u>
Benefit obligation at the end of year	<u>\$ 1,364,315</u>	<u>\$ 1,093,328</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	57,702	53,265
Actual benefit disbursements	<u>(57,702)</u>	<u>(53,265)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	\$1,364,315	\$ 1,178,556
Unrecognized actuarial loss (before SFAS 158)	<u>N/A</u>	<u>(85,228)</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$1,364,315</u>	<u>\$ 1,093,328</u>

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F. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit costs for health care recognized during the years ended October 31, 2007 and 2006, which are included in salaries and related benefits, are comprised of the following components:

	<u>2007</u>	<u>2006</u>
Service cost (benefits earned during the period)	\$ 34,148	\$34,304
Interest cost on accumulated postretirement benefit obligation	<u>73,681</u>	<u>58,905</u>
	<u>\$107,829</u>	<u>\$93,209</u>

The net periodic postretirement benefit costs of \$107,829 and \$93,209 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2007 and 2006 respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2008.

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

	<u>2007</u>	<u>2006</u>
Healthcare costs	9.50%	9.50%
Future compensation levels	3.50%	3.25%
Discount rate	6.25%	5.25%

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

<u>Year Ending</u> <u>October 31</u>	<u>Health</u> <u>Care</u>	<u>Life</u> <u>Insurance</u>	<u>Retirement</u> <u>Gift</u>	<u>Total</u>
2008	\$ 55,800	\$ 3,845	\$ 14,790	\$ 74,435
2009	60,841	4,354	-	65,195
2010	65,536	4,530	8,589	78,655
2011	69,992	4,939	16,407	91,338
2012	73,892	4,721	2,462	81,075
2013 - 2017	524,133	31,230	222,069	777,432

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F. POSTRETIREMENT BENEFITS - Continued

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

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, the effect of a 1% increase in the trend rate of the health care cost portion of net periodic postretirement benefit cost for the year ended October 31, 2007 is as follows:

	Health Care Cost Trend Rate		<u>Increase</u>
	<u>9.5%</u>	<u>10.5%</u>	
Service cost	\$12,683	\$15,352	\$2,669
Interest cost	<u>47,797</u>	<u>53,695</u>	<u>5,898</u>
Net periodic postretirement health care benefit cost	<u>\$60,480</u>	<u>\$69,047</u>	<u>\$8,567</u>
Accumulated postretirement benefit obligation for health care benefits at October 31, 2007	<u>\$1,082,728</u>	<u>\$1,202,957</u>	<u>\$120,229</u>

G. MINIMUM BENEFIT GUARANTEE

In 1974, the Board of Trustees agreed to provide certain designated employees a guaranteed minimum pension benefit upon retirement. The Children's Homes has established a reserve account with GuideStone Financial Resources of the Southern Baptist Convention to fund these minimum pension benefits. There is currently one retired employee who receives these supplements and no other employees are eligible for this minimum benefit guarantee. The balance in the reserve account at October 31, 2007 and 2006 was \$2,314 and \$15,494, respectively.

H. PENSION PLAN

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

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H. PENSION PLAN - Continued

Under the plan, the actuarial value of accumulated benefits is equal to or less than the accumulated value of the assets. There is no unfunded actuarial prior service or post service benefits, and no unfunded value of accrued plan benefits. Pension expense totaled \$273,781 and \$253,795 during the years ended October 31, 2007 and 2006, respectively. Pension cost is funded as accrued.

I. DEFERRED COMPENSATION PLAN

The Children's Homes has a non-elective deferred compensation plan to provide benefits payable to certain management employees at specific future dates, upon termination, retirement, death or disability. Total expense was \$26,469 and \$24,779 during the years ended October 31, 2007 and 2006, respectively. The related liability is included in accounts payable and accrued liabilities in the statement of financial position.

J. CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Children's Homes to concentrations of credit risk, consist principally of cash and investments held by the Children's Homes and the Tennessee Baptist Foundation. Cash and cash equivalents at October 31, 2007 and 2006 include demand deposits at high credit quality 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 the Children's Homes investment objectives and policies of maintaining a variety of quality investments. Credit risk also extends to uncollateralized receivables.

K. UNRESTRICTED NET ASSETS

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

Designated for operating reserve:

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

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K. UNRESTRICTED NET ASSETS

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

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

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

L. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$1,664,272 were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The purpose restrictions accomplished were for program services.

M. BENEFICIAL INTERESTS IN TRUSTS

Beneficial interests in trusts represent resources neither in the possession nor under the control of the Children's Homes, but held and administered by outside parties. These funds are recorded at their fair value. In addition, beneficial interests in trusts also include the residual values of certain trusts in which the Children's Homes hold funds as trustee and in accordance with the terms of the various trust instruments has an actual or potential interest. The fair value of these funds at October 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Residual trusts:		
Children's Homes as trustee	\$ 395,208	\$ 372,821
Held by outside trustees	<u>80,603</u>	<u>86,712</u>
Total residual trusts	475,811	459,533
 Perpetual trusts held by trustees	 <u>10,657,681</u>	 <u>10,353,134</u>
 Beneficial interests in trusts	 <u>\$11,133,492</u>	 <u>\$10,812,667</u>

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M. BENEFICIAL INTERESTS IN TRUSTS

During 2007 and 2006, the Children's Homes received interest and dividends of \$409,705 and \$364,858, respectively, on funds held in trust.