

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

FINANCIAL STATEMENTS

OCTOBER 31, 2009

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. as of October 31, 2009, 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crosslin & Associates, P.C.

December 3, 2009
Nashville, Tennessee

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2009
(with comparative totals for 2008)

	<u>ASSETS</u>	
	October 31,	
	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,026,681	\$ 1,229,560
Investments (Note B)	12,282,026	12,006,162
Accrued income receivable	30,938	47,831
Notes receivable	-	2,150
Prepaid expenses and other assets	266,746	315,451
Funds held in custody for children	74,826	70,276
Deposits held by others	172,641	127,809
Beneficial interests in trusts held by trustees (Note J)	11,383,811	9,036,793
Property, buildings and equipment, net (Note C)	<u>9,343,544</u>	<u>9,586,576</u>
Total assets	<u>\$34,581,213</u>	<u>\$32,422,608</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes D and F)	\$ 2,105,101	\$ 1,716,129
Funds held in custody for children	<u>74,826</u>	<u>70,276</u>
Total liabilities	<u>2,179,927</u>	<u>1,786,405</u>
<u>NET ASSETS</u>		
Unrestricted (Note H):		
Invested in property	\$ 7,623,833	\$ 7,866,865
Designated for operating reserve	3,706,091	2,516,370
Designated for operations	240,083	1,519,586
Designated for East Tennessee	<u>1,379,208</u>	<u>1,379,208</u>
	<u>12,949,215</u>	<u>13,282,029</u>
Temporarily restricted:		
Program services	2,108,256	2,626,993
Property, building and equipment purchases	1,244,487	1,131,570
Invested in property	1,719,711	1,719,711
Residual trusts held by trustees (Note J)	<u>487,713</u>	<u>384,377</u>
	<u>5,560,167</u>	<u>5,862,651</u>
Permanently restricted:		
Endowment (Note L)	2,995,806	2,839,107
Perpetual trusts held by trustees (Notes J and L)	<u>10,896,098</u>	<u>8,652,416</u>
	<u>13,891,904</u>	<u>11,491,523</u>
Total net assets	<u>32,401,286</u>	<u>30,636,203</u>
Total liabilities and net assets	<u>\$34,581,213</u>	<u>\$32,422,608</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2009
(with comparative totals for 2008)

	Total	
	2008	2009
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,501,846	\$ 1,438,179
Contributions	3,572,447	3,478,321
Contributions of beneficial interests in trusts held by trustees	130,410	1,258,651
Fundraising events	162,887	135,089
Bequests	477,817	444,135
Income from trusts	416,353	452,198
Noncash gifts	308,598	156,320
Noncash gifts - fundraising events	46,380	31,453
Net assets released from restrictions (Note I)	-	-
Total support	<u>6,616,738</u>	<u>7,394,346</u>
Revenue:		
Investment income	377,691	243,985
Investment gains (losses)	(2,697,903)	480,151
Investment gains (losses) on funds held by trustees	(2,218,975)	1,096,500
Adoption services fees	1,500	-
Child support payments	16,123	34,743
Rental income	89,785	44,853
Other	<u>57,018</u>	<u>50,182</u>
Total revenue	<u>(4,374,761)</u>	<u>1,950,414</u>
Total support and revenue	<u>2,241,977</u>	<u>9,344,760</u>
Expenses:		
Program services	5,406,932	5,866,650
Supporting services	<u>1,535,056</u>	<u>1,713,027</u>
Total expenses	<u>6,941,988</u>	<u>7,579,677</u>
Total increase (decrease) in net assets	(4,700,011)	1,765,083
Net assets at beginning of year	<u>35,336,214</u>	<u>30,636,203</u>
Net assets at end of year	<u>\$ 30,636,203</u>	<u>\$32,401,286</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,438,179	\$ -	\$ -
3,120,762	351,559	6,000
-	77,452	1,181,199
-	135,089	-
276,698	17,437	150,000
286,622	164,877	699
-	156,320	-
-	31,453	-
<u>1,283,802</u>	<u>(1,283,802)</u>	<u>-</u>
<u>6,406,063</u>	<u>(349,615)</u>	<u>1,337,898</u>
230,871	13,114	-
480,151	-	-
-	34,017	1,062,483
-	-	-
34,743	-	-
44,853	-	-
<u>50,182</u>	<u>-</u>	<u>-</u>
<u>840,800</u>	<u>47,131</u>	<u>1,062,483</u>
<u>7,246,863</u>	<u>(302,484)</u>	<u>2,400,381</u>
5,866,650	-	-
<u>1,713,027</u>	<u>-</u>	<u>-</u>
<u>7,579,677</u>	<u>-</u>	<u>-</u>
(332,814)	(302,484)	2,400,381
<u>13,282,029</u>	<u>5,862,651</u>	<u>11,491,523</u>
<u>\$ 12,949,215</u>	<u>\$ 5,560,167</u>	<u>\$13,891,904</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2009
(with comparative totals for 2008)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 1,765,083	\$(4,700,011)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Investment (gain) loss	(570,918)	2,697,902
Investment (gain) loss on funds held by trustees	(1,096,500)	2,218,975
Depreciation	705,281	620,055
Gifts in-kind	(10,800)	(11,900)
Decrease in accrued income receivable	16,893	56,794
Decrease (increase) in prepaid expenses and other assets	48,705	(17,138)
(Increase) decrease in deposits held by others	(44,832)	59,942
Increase in beneficial interests in trusts	(1,258,652)	(130,410)
Increase (decrease) in accounts payable and accrued liabilities	<u>388,972</u>	<u>(402,718)</u>
Net cash (used in) provided by operating activities	<u>(56,768)</u>	<u>391,491</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	8,134	8,134
Purchases of property and equipment	(451,449)	(427,458)
Purchases of investments	(7,053,980)	(1,154,885)
Proceeds from sales of investments and property held for sale	7,349,034	1,837,879
Decrease in notes receivable	<u>2,150</u>	<u>117,070</u>
Net cash (used in) provided by investing activities	<u>(146,111)</u>	<u>380,740</u>
Net (decrease) increase in cash and cash equivalents	(202,879)	772,231
Cash and cash equivalents:		
Beginning of year	<u>1,229,560</u>	<u>457,329</u>
End of year	<u>\$ 1,026,681</u>	<u>\$ 1,229,560</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2009
(with comparative totals for 2008)

Total			Program Services
2008	2009		
\$2,777,470	\$2,830,292	Salaries	\$2,073,725
633,993	1,354,938	Retirement and group insurance	961,968
195,489	189,784	Social security	147,623
25,005	44,611	Worker's compensation insurance	33,043
35,529	32,500	Houseparent's incentive pay	32,500
3,667,486	4,452,125	Total salaries and related benefits	3,248,859
25,320	16,008	Activities	16,008
31,620	33,887	Allowance and work program	33,887
6,855	16,727	Appreciation events	7
2,803	3,138	Background verification	3,131
11,616	10,000	Board meetings	-
8,277	-	Summer vacations	-
48,209	27,912	Christmas and birthday gifts	27,912
40,302	45,591	Clothing	45,591
-	30,002	Cottage outings	30,002
20,976	16,926	Data communications	14,987
17,427	7,100	Dues and memberships	3,510
61,935	35,962	Equipment	35,962
104,827	71,125	Event costs	-
3,180	1,375	Family ministries	1,375
21,928	18,105	Farm	18,105
312,378	227,305	Food	227,305
33,931	28,909	Foster homes	28,909
-	11,709	Household goods	11,709
236,733	205,211	Insurance	184,611
-	29,789	Lawn maintenance	29,789
177,253	287,015	Maintenance	285,234
57,914	41,973	Medical	41,973
19,208	12,160	Miscellaneous	11,379
438	1,150	Mother's aid	1,150
47,034	46,361	Office	22,387
-	7,404	Personal hygiene	7,404
56,470	53,253	Postage	8,387
138,995	92,803	Printing and publicity	-
21,635	20,428	Professional services - legal	15,284
54,321	38,629	Professional services - non legal	1
31,565	33,443	Public relations services	1
43,412	42,420	Recreation	42,420
608	-	Rent	-
213,654	133,281	School and education	133,281
13,749	8,245	Spiritual enrichment and training	5,856
74,347	52,711	Supplies	52,633
11,386	28,952	Taxes	28,952
75,360	56,154	Telephone	44,495
-	46,850	Technology	31,123
31,565	23,740	Travel	11,275
425,077	430,835	Utilities	423,083
126,497	75,899	Vehicle fuel	62,021
45,642	51,784	Vehicle maintenance and repair	42,184
6,321,933	6,874,396	Total expenses before depreciation	5,232,182
620,055	705,281	Depreciation of buildings and equipment	634,468
\$6,941,988	\$7,579,677	Total expenses	\$5,866,650
100%	100%	Percentages	77.4%

Supporting Services		
Management and General	Development	Total
\$538,689	\$ 217,878	\$ 756,567
324,291	68,679	392,970
32,806	9,355	42,161
8,262	3,306	11,568
-	-	-
904,048	299,218	1,203,266
-	-	-
-	-	-
-	16,720	16,720
-	7	7
10,000	-	10,000
-	-	-
-	-	-
-	-	-
607	1,332	1,939
2,755	835	3,590
-	-	-
-	71,125	71,125
-	-	-
-	-	-
-	-	-
-	-	-
17,433	3,167	20,600
-	-	-
933	848	1,781
-	-	-
241	540	781
-	-	-
14,911	9,063	23,974
-	-	-
4,941	39,925	44,866
-	92,803	92,803
5,144	-	5,144
7,215	31,413	38,628
-	33,442	33,442
-	-	-
-	-	-
-	-	-
1,544	845	2,389
-	78	78
-	-	-
7,210	4,449	11,659
11,385	4,342	15,727
7,462	5,003	12,465
3,876	3,876	7,752
9,878	4,000	13,878
7,196	2,404	9,600
1,016,779	625,435	1,642,214
67,884	2,929	70,813
<u>\$1,084,663</u>	<u>\$628,364</u>	<u>\$1,713,027</u>
<u>14.3%</u>	<u>8.3%</u>	<u>22.6%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009
(with comparative totals for 2008)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Accrual Basis and Financial Statement Presentation

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

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

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

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

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

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

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation 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.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009
(with comparative totals for 2008)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

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

Comparative Financial Statements

The financial information shown for fiscal year 2008 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 2009.

Investments

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

Contributions

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

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

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009
(with comparative totals for 2008)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property, Buildings and Equipment

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

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

Donated Materials and Services

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

Income Taxes

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

Funds Held in Trust for Others

Consistent with its charter powers and purposes, the Children's Homes, as trustee, holds certain funds totaling \$682,420 and \$563,167 at October 31, 2009 and 2008, respectively, in accordance with the terms of various trust instruments in which the Children's Homes may have an actual or potential interest. The trustee assets and liabilities are eliminated for reporting purposes. Any residual values which may be received by the Children's Homes have been recorded as beneficial interests in trusts at their respective fair values (Note J).

Pledges

At October 31, 2009, the Children's Homes had no unconditional pledges.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009
(with comparative totals for 2008)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

Effective November 1, 2008, the Children's Homes adopted SFAS No. 157, *Fair Value Measurements* (FASB Codification 820), which established a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures regarding the use of fair value measures. The adoption of SFAS No. 157 did not have an impact on the Children's Homes financial position or changes in net assets. Assets and liabilities recorded at fair value in the statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note K). Level inputs are as follows:

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

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

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

B. INVESTMENTS

Investments at October 31, 2009 and 2008 were as follows:

	Total 2009		Total 2008	
	Market	Cost	Market	Cost
Mutual Funds	\$ 9,117,839	\$ 9,820,814	\$11,497,539	\$12,759,680
Certificates of Deposit	3,154,499	3,143,491	499,648	500,391
Insurance Policy	9,688	9,688	8,975	8,975
	<u>\$12,282,026</u>	<u>\$12,973,993</u>	<u>\$12,006,162</u>	<u>\$13,269,046</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009
(with comparative totals for 2008)

B. INVESTMENTS - Continued

Investments at October 31, 2009 and 2008 for each class of net assets were as follows:

	Total	
	2009	2008
Unrestricted	\$ 7,792,786	\$ 7,367,846
Temporarily restricted	1,501,583	1,831,718
Permanently restricted	2,987,657	2,806,598
	<u>\$12,282,026</u>	<u>\$12,006,162</u>

Interest and dividends earned on investments owned by the Children's Homes amounted to \$186,534 and \$368,704 for the years ended October 31, 2009 and 2008, respectively. This income represents yields of 2.1% and 2.7% based on the cost of such investments, and 2.4% and 2.6% based on the market of such investments for fiscal years 2009 and 2008, respectively.

The total return (income yield plus investment gains and losses) on investments owned by the Children's Homes was a gain of 5.9% and a loss of 18.0% based on the cost of such investments, and a gain of 6.2% and a loss of 17.2% based on the market of such investments for fiscal years 2009 and 2008, respectively.

During fiscal year 2008 and a portion of fiscal year 2009, the Tennessee Baptist Foundation ("TBF") served as a limited fiscal agent for certain investments in accordance with investment decisions made by the Children's Homes. The TBF transferred the income from the investments to the Children's Homes.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009
(with comparative totals for 2008)

C. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment at October 31, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 2,929,728	\$ 2,929,728
Buildings	12,651,069	12,634,313
Furnishings and equipment	1,363,245	1,338,274
Improvements other than buildings	1,645,160	1,382,084
Other machinery and equipment	625,506	600,769
Vehicles	892,021	966,974
Construction in progress (estimated cost to complete at October 31, 2009 - \$1,285,000)	<u>505,692</u>	<u>517,173</u>
	20,612,421	20,369,315
Less accumulated depreciation	<u>(11,268,877)</u>	<u>(10,782,739)</u>
Net investment in property, buildings and equipment	<u>\$ 9,343,544</u>	<u>\$ 9,586,576</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009
(with comparative totals for 2008)

D. POSTRETIREMENT BENEFITS

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

The status of the plan at October 31, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,038,414	\$ 1,364,315
Service cost	28,659	39,342
Interest cost	88,209	85,402
Actual benefit disbursements	(50,213)	(51,709)
Change in assumptions	334,110	(230,180)
Actuarial gain	<u>(97,862)</u>	<u>(168,756)</u>
Benefit obligation at the end of year	<u>\$ 1,341,317</u>	<u>\$ 1,038,414</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	50,213	51,709
Actual benefit disbursements	<u>(50,213)</u>	<u>(51,709)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$1,341,317</u>	<u>\$1,038,414</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$1,341,317</u>	<u>\$1,038,414</u>

The net periodic postretirement benefit costs for health care recognized during the years ended October 31, 2009 and 2008, which are included in salaries and related benefits, are comprised of the following components:

	<u>2009</u>	<u>2008</u>
Service cost (benefits earned during the period)	\$ 28,659	\$ 39,342
Interest cost on accumulated postretirement benefit obligation	88,209	85,402
Gain/loss to the extent recognized	<u>(14,383)</u>	<u>12,061</u>
	<u>\$ 102,485</u>	<u>\$136,805</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009
(with comparative totals for 2008)

D. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit costs of \$102,485 and \$136,805 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2009 and 2008 respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2010.

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

	<u>2009</u>	<u>2008</u>
Healthcare costs	8.75%	9.50%
Future compensation levels	3.25%	3.25%
Discount rate	5.60%	8.50%

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>
2010	\$ 46,837	\$ 4,528	\$ 10,120	\$ 61,485
2011	51,298	5,019	7,817	64,134
2012	55,489	4,829	-	60,318
2013	70,213	5,602	33,283	109,098
2014	74,354	6,304	-	80,658
2015 - 2019	422,554	35,415	157,301	615,270

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

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D. POSTRETIREMENT BENEFITS - Continued

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, the effect of a 1% increase in the trend rate of the health care cost portion of net periodic postretirement benefit cost for the year ended October 31, 2009 is as follows:

	Health Care Cost Trend Rate		<u>Increase</u>
	<u>8.75%</u>	<u>9.75%</u>	
Service cost	\$11,951	\$13,890	\$1,939
Interest cost	<u>67,987</u>	<u>75,206</u>	<u>7,219</u>
Net periodic postretirement health care benefit cost	<u>\$79,938</u>	<u>\$89,096</u>	<u>\$9,158</u>
Accumulated postretirement benefit obligation for health care benefits at October 31, 2009	<u>\$1,059,980</u>	<u>\$1,184,734</u>	<u>\$124,754</u>

E. PENSION PLAN

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

Under the plan, the value of accumulated benefits is equal to the value of the assets. There is no unfunded value of accrued plan benefits. Pension expense totaled \$280,887 and \$255,767 during the years ended October 31, 2009 and 2008, respectively.

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F. DEFERRED COMPENSATION PLAN

The Children's Homes has a non-elective deferred compensation plan to provide benefits payable to certain management employees at specific future dates, upon termination, retirement, death or disability. Total expense was \$19,237 and \$19,875 during the years ended October 31, 2009 and 2008, respectively. The related liability is included in accounts payable and accrued liabilities in the statement of financial position.

G. CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Children's Homes to concentrations of credit risk, consist principally of cash and cash equivalents and investments. Cash and cash equivalents at October 31, 2009 and 2008 include demand deposits at financial institutions which management believes are high credit quality financial institutions. The deposits possess credit risk to the extent they exceed federally insured limits. Management believes the exposure to concentrations of credit risk relative to securities is limited due to the Children's Homes investment objectives and policies of maintaining a variety of quality investments. Credit risk also extends to uncollateralized receivables.

H. UNRESTRICTED NET ASSETS

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

Designated for operating reserve:

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

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

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H. UNRESTRICTED NET ASSETS - Continued

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

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

I. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$1,283,802 were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The purpose restrictions accomplished were for program services.

J. BENEFICIAL INTERESTS IN TRUSTS

Beneficial interests in trusts represent resources neither in the possession nor under the control of the Children's Homes, but held and administered by outside parties. These funds are recorded at their fair value. In addition, beneficial interests in trusts also include the residual values of certain trusts in which the Children's Homes hold funds as trustee and in accordance with the terms of the various trust instruments has an actual or potential interest. The fair values of these funds at October 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Residual trusts:		
Children's Homes as trustee	\$ 354,312	\$ 318,729
Held by outside trustees	<u>133,401</u>	<u>65,648</u>
Total residual trusts	487,713	384,377
 Perpetual trusts held by trustees	 <u>10,896,098</u>	 <u>8,652,416</u>
 Beneficial interests in trusts	 <u>\$11,383,811</u>	 <u>\$9,036,793</u>

During 2009 and 2008, the Children's Homes received interest and dividends of \$452,198 and \$416,353, respectively, on funds held in trust.

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K. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Children's Homes assessment of available market information and appropriate valuation methodologies. The following table summarizes fair value measurements at October 31, 2009 for the assets and liabilities measured at fair value on a recurring basis:

	Assets Measured at	Fair Value Measurements Using		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$12,282,026	\$12,272,338	-	\$9,688
Beneficial interests	11,383,811	-	11,383,811	-

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

L. ENDOWMENT FUNDS

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

In August 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position (FSP) No. FAS 117-1, *Endowments of Not for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No. FAS 117-1). FSP No. FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Tennessee's State Uniform Prudent Management of Institutional Funds Act (SUPMIFA) became effective during fiscal 2008. FSP No. FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated funds functioning as endowment) whether or not the organization is subject to UPMIFA.

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L. ENDOWMENT FUNDS - Continued

Interpretation of Relevant Law

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

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

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

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

Endowment Net Asset Composition by Type of Fund as of October 31, 2008

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(32,509)	\$ 2,839,107	\$ 2,860,598
Perpetual trusts held by trustees	<u>-</u>	<u>8,652,416</u>	<u>8,652,416</u>
Total funds	<u>\$(32,509)</u>	<u>\$11,491,523</u>	<u>\$11,459,014</u>

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L. ENDOWMENT FUNDS - Continued

Changes in Endowment Net Assets for the years ended October 31, 2009 and 2008

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Endowment net assets</i> , November 1, 2007	\$(9,394)	\$ 13,393,153	\$ 13,383,759
Investment return:			
Investment income	86,505	3,177	89,682
Net depreciation realized and unrealized)	<u>(23,115)</u>	<u>(2,135,068)</u>	<u>(2,158,183)</u>
Total investment return	<u>63,390</u>	<u>(2,131,891)</u>	<u>(2,068,501)</u>
Contributions	<u>-</u>	<u>230,261</u>	<u>230,261</u>
Appropriation of endowment assets for expenditure	<u>(86,505)</u>	<u>-</u>	<u>(86,505)</u>
<i>Endowment net assets</i> , October 31, 2008	<u>(32,509)</u>	<u>11,491,523</u>	<u>11,459,014</u>
Investment return:			
Investment income	58,998	699	59,697
Net appreciation (realized and unrealized)	<u>24,360</u>	<u>1,062,483</u>	<u>1,086,843</u>
Total investment return	<u>83,358</u>	<u>1,063,182</u>	<u>1,146,540</u>
Contributions	<u>-</u>	<u>1,337,199</u>	<u>1,337,199</u>
Appropriation of endowment assets assets for expenditure	<u>(58,998)</u>	<u>-</u>	<u>(58,998)</u>
<i>Endowment net assets</i> , October 31, 2009	<u><u>\$(8,149)</u></u>	<u><u>\$ 13,891,904</u></u>	<u><u>\$ 13,883,755</u></u>

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L. ENDOWMENT FUNDS - Continued

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How Investment Objectives Relate to Spending Policy

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

M. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 3, 2009, and has determined that there are no subsequent events requiring disclosure.