

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

FINANCIAL STATEMENTS

OCTOBER 31, 2006

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, 2006, 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, 2006, 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, Vaden & Associates, P.C.

November 22, 2006
Nashville, Tennessee

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2006
(with comparative totals for 2005)

	<u>ASSETS</u>	
	October 31,	
	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 271,901	\$ 491,639
Investments (Note B)	861,488	849,041
Investments held by Tennessee Baptist Foundation (Note B)	15,203,741	14,666,856
Accrued income receivable	147,791	116,120
Notes receivable (Note D)	196,082	298,860
Prepaid expenses and other assets	237,412	295,730
Property held for sale	23,575	-
Funds held in custody for children	28,746	19,337
Deposits held by others	181,441	140,878
Beneficial interests in trusts held by trustees (Note M)	10,812,667	10,263,305
Property, buildings and equipment, net (Note C)	<u>9,579,665</u>	<u>9,553,791</u>
Total assets	<u>\$37,544,509</u>	<u>\$36,695,557</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes F, G and I)	\$ 1,643,474	\$ 1,509,559
Funds held in custody for children	<u>28,746</u>	<u>19,337</u>
Total liabilities	<u>1,672,220</u>	<u>1,528,896</u>
<u>NET ASSETS</u>		
Unrestricted (Note K):		
Invested in property	\$ 7,859,953	\$ 7,834,080
Designated for operating reserve	2,893,966	2,874,327
Designated for operations	2,752,901	2,758,117
Designated for East Tennessee	<u>1,771,906</u>	<u>1,866,740</u>
	<u>15,278,726</u>	<u>15,333,264</u>
Temporarily restricted:		
Program services	2,853,382	2,659,861
Property, building and equipment purchases	2,481,363	2,968,515
Invested in property	1,719,711	1,719,711
Residual trusts held by trustees (Note M)	<u>459,534</u>	<u>331,958</u>
	<u>7,513,990</u>	<u>7,680,045</u>
Permanently restricted:		
Endowment	2,726,439	2,222,005
Perpetual trusts held by trustees (Note M)	<u>10,353,134</u>	<u>9,931,347</u>
	<u>13,079,573</u>	<u>12,153,352</u>
Total net assets	<u>35,872,289</u>	<u>35,166,661</u>
Total liabilities and net assets	<u>\$37,544,509</u>	<u>\$36,695,557</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2006
(with comparative totals for 2005)

	Total	
	2005	2006
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,255,171	\$ 1,348,731
Contributions	3,527,896	3,920,157
Contributions of beneficial interests in trusts held by trustees	724,406	261,856
Fundraising Events	185,421	161,276
Bequests	667,235	641,045
Income from trusts	341,731	364,858
Noncash gifts	227,223	298,681
Noncash gifts - fund raising events	32,196	30,367
Net assets released from restrictions (Note L)	-	-
Total support	<u>6,961,279</u>	<u>7,026,971</u>
Revenue:		
Investment income	431,152	584,477
Investment gains	88,710	463,809
Investment gains (losses) on funds held by trustees	(31,072)	295,641
Adoption services fees	2,200	4,100
Child support payments	11,879	15,072
Rental income	79,767	118,403
Gain on sale of properties and equipment	-	86,560
Other	62,104	50,704
Total revenue	<u>644,740</u>	<u>1,618,766</u>
Total support and revenue	<u>7,606,019</u>	<u>8,645,737</u>
Expenses:		
Program services	5,706,058	6,282,711
Supporting services	<u>1,561,027</u>	<u>1,657,398</u>
Total expenses	<u>7,267,085</u>	<u>7,940,109</u>
Net increase in net assets	338,934	705,628
Net assets at beginning of year	<u>34,827,727</u>	<u>35,166,661</u>
Net assets at end of year	<u>\$ 35,166,661</u>	<u>\$35,872,289</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,348,731	\$ -	\$ -
3,270,045	585,545	64,567
-	81,338	180,518
-	161,276	-
159,669	44,376	437,000
213,487	148,504	2,867
-	298,681	-
-	30,367	-
<u>1,640,820</u>	<u>(1,640,820)</u>	<u>-</u>
<u>6,632,752</u>	<u>(290,733)</u>	<u>684,952</u>
540,037	44,440	-
437,943	25,866	-
-	54,372	241,269
4,100	-	-
15,072	-	-
118,403	-	-
86,560	-	-
50,704	-	-
<u>1,252,819</u>	<u>124,678</u>	<u>241,269</u>
<u>7,885,571</u>	<u>(166,055)</u>	<u>926,221</u>
6,282,711	-	-
<u>1,657,398</u>	<u>-</u>	<u>-</u>
<u>7,940,109</u>	<u>-</u>	<u>-</u>
(54,538)	(166,055)	926,221
<u>15,333,264</u>	<u>7,680,045</u>	<u>12,153,352</u>
<u>\$ 15,278,726</u>	<u>\$ 7,513,990</u>	<u>\$13,079,573</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2006
(with comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase in net assets	\$ 705,628	\$ 338,934
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Investment gains	(463,809)	(88,710)
Investment (losses) gains on funds held by trustees	(295,641)	31,072
Depreciation	621,610	637,100
Gifts in-kind	(55,947)	(22,805)
Increase in accrued income receivable	(31,671)	(55,997)
Decrease in prepaid expenses and other assets	58,318	12,979
Increase in deposits	(40,563)	(34,111)
Increase in beneficial interests in trusts	(261,856)	(724,406)
Increase in property held for sale	(23,575)	-
Increase in accounts payable and accrued liabilities	<u>133,916</u>	<u>94,162</u>
Net cash provided by operating activities	<u>346,410</u>	<u>188,218</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	8,134	-
Purchases of property and equipment	(645,144)	(554,592)
Purchases of investments	(5,396,799)	(593,729)
Proceeds from sale of properties and equipment	53,607	-
Proceeds from sales of investments and property held for sale	5,311,277	555,336
Decrease in notes receivable	<u>102,777</u>	<u>432,332</u>
Net cash used in investing activities	<u>(566,148)</u>	<u>(160,653)</u>
Net (decrease) increase in cash and cash equivalents	(219,738)	27,565
Cash and cash equivalents:		
Beginning of year	<u>491,639</u>	<u>464,074</u>
End of year	<u>\$ 271,901</u>	<u>\$ 491,639</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2006
(with comparative totals for 2005)

Total			Program Services
2005	2006		
\$2,583,378	\$3,007,724	Salaries	\$ 2,322,130
818,385	911,121	Annuity and group insurance	691,475
168,220	200,946	Social security and benefits	160,370
116,399	99,917	Worker's compensation insurance	80,802
34,776	33,749	Houseparent's incentives	33,749
3,721,158	4,253,457	Total salaries and related benefits	3,288,526
28,392	27,743	Activities	27,743
-	1,070	Adoption services	1,070
33,083	30,921	Allowance and work program	30,921
4,699	4,079	Background verification	3,965
16,064	21,629	Board meetings	-
47,583	40,947	Summer Vacations	40,947
61,490	75,445	Christmas and birthday gifts	75,445
41,972	55,079	Clothing	55,079
25,260	26,365	Data communications	23,854
12,393	11,992	Dues and memberships	7,888
83,654	44,845	Equipment	34,907
105,523	75,735	Event costs	-
38,066	38,652	Farm	38,652
2,012	6,462	Family ministries	6,462
333,181	309,110	Food	309,110
11,018	30,573	Foster homes	30,573
211,715	225,629	Insurance	200,700
365,925	357,913	Maintenance	356,824
63,320	79,036	Medical	79,036
62,465	15,661	Miscellaneous	14,303
5,917	40,905	Mission projects	40,905
1,223	4,651	Mother's aid	4,651
52,107	60,673	Office	35,673
28,409	30,537	Postage	10,125
120,962	162,668	Printing and publicity	-
24,089	27,799	Professional services - legal	23,982
107,082	58,093	Professional services - non legal	455
64,867	71,109	Public relations services	-
70,970	63,592	Recreation	63,592
3,324	3,324	Rent	3,324
110,703	193,924	School and education	193,924
13,538	26,042	Spiritual enrichment and training	12,956
93,457	110,543	Supplies	110,483
10,538	9,295	Taxes	9,295
79,513	81,158	Telephone	65,035
138,190	140,639	Transportation	140,639
62,952	79,097	Travel	31,327
373,171	422,107	Utilities	414,770
6,629,985	7,318,499	Total expenses before depreciation	5,787,141
637,100	621,610	Depreciation of buildings and equipment	544,054
<u>\$7,267,085</u>	<u>\$7,940,109</u>	Total expenses	<u>\$ 6,331,195</u>
100%	100%	Percentages	79.7%

<u>Supporting Services</u>		
<u>Management and General</u>	<u>Development</u>	<u>Total</u>
\$ 465,335	\$220,259	\$ 685,594
172,091	47,555	219,646
28,697	11,879	40,576
13,762	5,353	19,115
-	-	-
<u>679,885</u>	<u>285,046</u>	<u>964,931</u>
-	-	-
-	-	-
-	-	-
41	73	114
21,629	-	21,629
-	-	-
-	-	-
-	-	-
623	1,888	2,511
3,177	927	4,104
8,964	974	9,938
-	75,735	75,735
-	-	-
-	-	-
-	-	-
-	-	-
20,546	4,383	24,929
952	137	1,089
-	-	-
598	760	1,358
-	-	-
-	-	-
15,745	9,255	25,000
11,458	8,954	20,412
-	162,668	162,668
3,817	-	3,817
56,972	666	57,638
-	71,109	71,109
-	-	-
-	-	-
-	-	-
8,191	4,895	13,086
-	60	60
-	-	-
9,114	7,009	16,123
-	-	-
35,138	12,632	47,770
<u>3,668</u>	<u>3,669</u>	<u>7,337</u>
880,518	650,840	1,531,358
<u>73,346</u>	<u>4,210</u>	<u>77,556</u>
<u>\$ 953,864</u>	<u>\$655,050</u>	<u>\$1,608,914</u>
<u>12.0%</u>	<u>8.3%</u>	<u>20.3%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006
(with comparative totals for 2005)

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, 2006
(with comparative totals for 2005)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Financial Statements

The financial information shown for fiscal year 2005 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 2006.

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, 2006
(with comparative totals for 2005)

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 \$646,483 and \$656,809 at October 31, 2006 and 2005 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 the present value of their respective fair market values (Note M).

Pledges

The Children's Homes at October 31, 2006 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, 2006
(with comparative totals for 2005)

B. INVESTMENTS

Investments at October 31, 2006 and 2005 were as follows:

	<u>Investments Held By</u>		<u>Total 2006</u>		<u>Total 2005</u>	
	<u>TBF</u>	<u>Children's Homes</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual Funds	\$11,713,936	\$335,435	\$12,049,371	\$11,230,892	\$10,833,434	\$11,070,188
United States Government Securities	3,489,805	-	3,489,805	3,500,000	4,171,131	4,200,000
Certificates of Deposit	-	491,860	491,860	492,000	492,000	492,000
REIT	-	26,600	26,600	10,600	12,400	10,600
Insurance Policy	-	7,593	7,593	7,593	6,932	6,932
	<u>\$15,203,741</u>	<u>\$861,488</u>	<u>\$16,065,229</u>	<u>\$15,241,085</u>	<u>\$15,515,897</u>	<u>\$15,779,720</u>

Investments at October 31, 2006 and 2005 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>2006 (Market)</u>	<u>2005 (Market)</u>
Unrestricted	\$10,253,156	\$481,049	\$10,734,205	\$10,239,989
Temporarily restricted	2,380,531	233,765	2,614,296	3,120,336
Permanently restricted	<u>2,570,054</u>	<u>146,674</u>	<u>2,716,728</u>	<u>2,155,572</u>
	<u>\$15,203,741</u>	<u>\$861,488</u>	<u>\$16,065,229</u>	<u>\$15,515,897</u>

Interest and dividends earned on investments owned by the Children's Homes amounted to \$561,557 and \$401,137 for the years ended October 31, 2006 and 2005, respectively. This income represents yields of 3.7% and 2.7% based on the cost of such investments, and 3.6% and 2.7% based on the market of such investments for fiscal 2006 and 2005, respectively.

The total return (income yield plus investment gains and losses) on investments owned by the Children's Homes was 6.7% and 3.2% based on the cost of such investments, and 6.6% and 3.3% based on the market of such investments for fiscal years 2006 and 2005, respectively.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006
(with comparative totals for 2005)

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, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Land	\$ 2,928,573	\$ 2,615,611
Buildings	12,488,441	12,324,237
Furnishings and equipment	1,320,140	1,298,662
Improvements other than buildings	1,073,901	929,230
Other machinery and equipment	664,494	646,639
Vehicles	1,086,735	1,078,545
Construction in progress (estimated cost to complete at October 31, 2006 - \$1,175,000)	<u>112,075</u>	<u>373,692</u>
Total plant facilities	19,674,359	19,266,616
Less accumulated depreciation	<u>(10,094,694)</u>	<u>(9,712,825)</u>
Net investment in plant	<u>\$ 9,579,665</u>	<u>\$ 9,553,791</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006
(with comparative totals for 2005)

D. NOTES RECEIVABLE

Notes receivable at October 31, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Note receivable from an unrelated party due in monthly installments of \$2,182 including interest at 8% through July 2006. The balance was paid in full in July 2006.	\$ -	\$ 18,406
Note receivable from an unrelated party due in monthly installments of \$8,833 including interest at 7.25% (rate is equal to prime rate as published in the Wall Street Journal adjusted annually on note anniversary date) through March 2009.	196,082	279,354
Note receivable - other, the balance was paid in full in December 2005.	<u>-</u>	<u>1,100</u>
	<u>\$196,082</u>	<u>\$298,860</u>

Notes receivable are collateralized by deeds of trust. The maturities on notes receivable at October 31, 2006 are as follows:

<u>Year Ending October 31</u>	<u>Amount</u>
2007	\$ 88,693
2008	95,341
2009	<u>12,048</u>
	<u>\$196,082</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006
(with comparative totals for 2005)

E. LEASES

The Children's Homes leases certain property on an annual basis with lease expense for fiscal 2006 and 2005 totaling \$3,324 and \$3,324, respectively.

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.

The net periodic postretirement benefit costs for health care recognized during the years ended October 31, 2006 and 2005, which are included in salaries and related benefits, are comprised of the following components:

	<u>2006</u>	<u>2005</u>
Service cost (benefits earned during the period)	\$34,304	\$29,891
Interest cost on accumulated postretirement benefit obligation	58,905	66,234
Amortization of unrecognized prior service cost	<u>-</u>	<u>-</u>
	<u>\$93,209</u>	<u>\$96,125</u>

The net periodic postretirement benefit costs of \$93,209 and \$96,125 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2006 and 2005 respectively. The accrued postretirement benefit cost, which is unfunded at October 31, 2006 and 2005, was \$1,093,024 and \$1,053,384, respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2007.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006
(with comparative totals for 2005)

F. POSTRETIREMENT BENEFITS - Continued

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

	<u>2006</u>	<u>2005</u>
Healthcare costs	9.50%	9.50%
Future compensation levels	3.25%	3.25%
Discount rate	5.25%	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>
2007	\$ 48,519	\$ 4,204	\$ 14,892	\$ 67,615
2008	50,295	3,986	5,460	59,741
2009	52,115	4,159	-	56,274
2010	53,965	4,543	12,569	71,077
2011	55,768	4,384	16,038	76,190
2012 - 2016	349,055	27,461	162,301	538,817

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, 2006 is as follows:

	<u>Health Care Cost</u> <u>Trend Rate</u>		
	<u>9.5%</u>	<u>10.5%</u>	<u>Increase</u>
Service cost	\$13,518	\$16,506	\$2,988
Interest cost	<u>45,588</u>	<u>51,252</u>	<u>5,664</u>
Net periodic postretirement health care benefit cost	<u>\$59,106</u>	<u>\$67,758</u>	<u>\$8,652</u>
Accumulated postretirement benefit obligation for health care benefits at October 31, 2006	<u>\$922,005</u>	<u>\$1,031,671</u>	<u>\$109,666</u>

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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 the Annuity Board 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, 2006 and 2005 was \$15,494 and \$15,072, respectively.

H. PENSION PLAN

The Children's Homes participates in the retirement program of the Annuity Board of the Southern Baptist Convention. 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 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 \$253,795 and \$220,049 during the years ended October 31, 2006 and 2005, 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 \$24,779 and \$21,365 during the years ended October 31, 2006 and 2005, respectively. The related liability is included in accounts payable and accrued liabilities in the statement of financial position.

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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, 2006 and 2005 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.

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.

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L. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$1,640,820 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, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Residual trust		
Children's Homes as trustee	\$ 372,821	\$ 319,830
Held by outside trustees	<u>86,712</u>	<u>12,128</u>
Residual trust held by trustee	459,533	331,958
Perpetual trusts held by trustees	<u>10,353,134</u>	<u>9,931,347</u>
Beneficial interests in trusts	<u>\$10,812,667</u>	<u>\$10,263,305</u>

During 2006 and 2005, the Children's Homes received interest and dividends of \$364,857 and \$341,731, respectively, on funds held in trust.