

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

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2008**

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, 2008, 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, 2008, 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, 2008  
Nashville, Tennessee

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2008  
(with comparative totals for 2007)

	<u>ASSETS</u>	
	October 31,	
	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 1,229,560	\$ 457,329
Investments (Note B)	1,058,906	1,002,035
Investments held by Tennessee Baptist Foundation (Note B)	10,947,256	14,385,023
Accrued income receivable	47,831	104,626
Notes receivable (Note D)	2,150	119,220
Prepaid expenses and other assets	315,451	274,002
Property held for sale	-	24,310
Funds held in custody for children	70,276	60,945
Deposits held by others	127,809	187,751
Beneficial interests in trusts held by trustees (Note M)	9,036,793	11,133,492
Property, buildings and equipment, net (Note C)	<u>9,586,576</u>	<u>9,767,274</u>
Total assets	<u>\$32,422,608</u>	<u>\$37,516,007</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes F, G and I)	\$ 1,716,129	\$ 2,118,848
Funds held in custody for children	<u>70,276</u>	<u>60,945</u>
Total liabilities	<u>1,786,405</u>	<u>2,179,793</u>
<u>NET ASSETS</u>		
Unrestricted (Note K):		
Invested in property	\$ 7,866,865	\$ 8,047,563
Designated for operating reserve	2,516,370	2,709,695
Designated for operations	1,519,586	2,809,150
Designated for East Tennessee	<u>1,379,208</u>	<u>1,379,289</u>
	<u>13,282,029</u>	<u>14,945,697</u>
Temporarily restricted:		
Program services	2,626,993	2,330,126
Property, building and equipment purchases	1,131,570	2,471,716
Invested in property	1,719,711	1,719,711
Residual trusts held by trustees (Note M)	<u>384,377</u>	<u>475,811</u>
	<u>5,862,651</u>	<u>6,997,364</u>
Permanently restricted:		
Endowment	2,839,107	2,735,472
Perpetual trusts held by trustees (Note M)	<u>8,652,416</u>	<u>10,657,681</u>
	<u>11,491,523</u>	<u>13,393,153</u>
Total net assets	<u>30,636,203</u>	<u>35,336,214</u>
Total liabilities and net assets	<u>\$32,422,608</u>	<u>\$37,516,007</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2008  
(with comparative totals for 2007)

	Total	
	2007	2008
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,343,375	\$ 1,501,846
Contributions	3,581,362	3,572,447
Contributions of beneficial interests in trusts held by trustees	52,477	130,410
Fundraising events	205,527	162,887
Bequests	163,392	477,817
Income from trusts	409,705	416,353
Noncash gifts	217,150	308,598
Noncash gifts - fund raising events	18,592	46,380
Net assets released from restrictions (Note L)	-	-
Total support	<u>5,991,580</u>	<u>6,616,738</u>
Revenue:		
Investment income	563,847	377,691
Investment gains (losses)	551,339	( 2,697,903)
Investment gains (losses) on funds held by trustees	274,084	( 2,218,975)
Adoption services fees	200	1,500
Child support payments	17,314	16,123
Rental income	114,688	89,785
Other	<u>66,710</u>	<u>57,018</u>
Total revenue	<u>1,588,182</u>	<u>( 4,374,761)</u>
Total support and revenue	<u>7,579,762</u>	<u>2,241,977</u>
Expenses:		
Program services	6,168,466	5,406,932
Supporting services	<u>1,726,511</u>	<u>1,535,056</u>
Total expenses	<u>7,894,977</u>	<u>6,941,988</u>
Decrease in net assets before effect of adoption of SFAS No. 158	( 315,215)	( 4,700,011)
Effect of adoption of recognition provisions of SFAS No. 158 (Note F)	<u>( 220,860)</u>	<u>-</u>
Total decrease in net assets	( 536,075)	( 4,700,011)
Net assets at beginning of year	<u>35,872,289</u>	<u>35,336,214</u>
Net assets at end of year	<u>\$ 35,336,214</u>	<u>\$ 30,636,203</u>

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<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,501,846	\$ -	\$ -
3,267,544	294,403	10,500
-	607	129,803
-	162,887	-
304,668	83,191	89,958
246,410	166,766	3,177
-	308,598	-
-	46,380	-
<u>2,110,379</u>	<u>(2,110,379)</u>	<u>-</u>
<u>7,430,847</u>	<u>(1,047,547)</u>	<u>233,438</u>
350,309	27,382	-
( 2,667,262)	( 30,641)	-
-	( 83,907)	( 2,135,068)
1,500	-	-
16,123	-	-
89,785	-	-
<u>57,018</u>	<u>-</u>	<u>-</u>
<u>( 2,152,527)</u>	<u>( 87,166)</u>	<u>( 2,135,068)</u>
<u>5,278,320</u>	<u>(1,134,713)</u>	<u>( 1,901,630)</u>
5,406,932	-	-
<u>1,535,056</u>	<u>-</u>	<u>-</u>
<u>6,941,988</u>	<u>-</u>	<u>-</u>
( 1,663,668)	(1,134,713)	( 1,901,630)
<u>-</u>	<u>-</u>	<u>-</u>
( 1,663,668)	(1,134,713)	( 1,901,630)
<u>14,945,697</u>	<u>6,997,364</u>	<u>13,393,153</u>
<u>\$ 13,282,029</u>	<u>\$ 5,862,651</u>	<u>\$ 11,491,523</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED OCTOBER 31, 2008  
(with comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Decrease in net assets	\$(4,700,011)	\$( 536,075)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Investment loss (gain)	2,697,902	( 551,339)
Investment loss (gain) on funds held by trustees	2,218,975	( 384,842)
Depreciation	620,055	625,260
Gifts in-kind	( 11,900)	( 7,500)
Provision for postretirement benefit obligation and adoption of SFAS 158 (Note F)	-	220,860
Decrease in accrued income receivable	56,794	43,165
Increase in prepaid expenses and other assets	( 16,845)	( 36,590)
Decrease (increase) in deposits held by others	59,942	( 6,310)
(Decrease) increase in beneficial interests in trusts	( 130,410)	55,884
Increase in property held for sale	( 293)	( 735)
(Increase) decrease in accounts payable and accrued liabilities	<u>( 402,718)</u>	<u>254,513</u>
Net cash provided by (used in) operating activities	<u>391,491</u>	<u>( 323,709)</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	8,134	8,134
Purchases of property and equipment	( 427,458)	( 805,369)
Purchases of investments	(1,154,885)	( 234,447)
Proceeds from sales of investments and property held for sale	1,837,879	1,463,957
Decrease in notes receivable	<u>117,070</u>	<u>76,862</u>
Net cash provided by investing activities	<u>380,740</u>	<u>509,137</u>
Net increase in cash and cash equivalents	772,231	185,428
Cash and cash equivalents:		
Beginning of year	<u>457,329</u>	<u>271,901</u>
End of year	<u>\$ 1,229,560</u>	<u>\$ 457,329</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED OCTOBER 31, 2008  
(with comparative totals for 2007)

Total			Program Services
2007	2008		
\$3,116,237	\$2,777,470	Salaries	\$2,047,991
990,892	633,993	Retirement and group insurance	474,993
218,352	195,489	Social security	154,562
82,677	25,005	Worker's compensation insurance	18,877
34,303	35,529	Houseparent's' incentive pay	35,529
4,442,461	3,667,486	Total salaries and related benefits	2,731,952
10,904	25,320	Activities	25,320
300	-	Adoption services	-
31,895	31,620	Allowance and work program	31,620
-	6,855	Appreciation events	-
4,292	2,803	Background verification	2,687
14,295	11,616	Board meetings	-
18,990	8,277	Summer vacations	8,277
45,735	48,209	Christmas and birthday gifts	48,209
49,454	40,302	Clothing	40,302
24,474	20,976	Data communications	19,049
16,060	17,427	Dues and memberships	11,051
38,061	61,935	Equipment	51,943
66,762	104,827	Event costs	-
5,247	3,180	Family ministries	3,180
33,700	21,928	Farm	21,928
319,487	312,378	Food	312,378
35,955	33,931	Foster homes	33,931
257,373	236,733	Insurance	210,479
242,837	177,253	Maintenance	174,461
65,839	57,914	Medical	57,914
24,957	19,208	Miscellaneous	18,385
12,481	-	Mission projects	-
2,310	438	Mother's aid	438
51,768	47,034	Office	25,591
44,664	56,470	Postage	8,236
179,588	138,995	Printing and publicity	1
21,752	21,635	Professional services - legal	18,257
58,138	54,321	Professional services - non legal	2,001
67,937	31,565	Public relations services	250
57,981	43,412	Recreation	43,412
3,594	608	Rent	608
185,377	213,654	School and education	213,654
17,922	13,749	Spiritual enrichment and training	6,397
104,637	74,347	Supplies	74,347
11,999	11,386	Taxes	11,386
83,485	75,360	Telephone	59,875
42,001	31,565	Travel	11,408
408,245	425,077	Utilities	416,633
106,170	126,497	Vehicle fuel	106,293
60,590	45,642	Vehicle maintenance and repair	38,262
7,269,717	6,321,933	Total expenses before depreciation	4,840,115
625,260	620,055	Depreciation of buildings and equipment	566,817
\$7,894,977	\$6,941,988	Total expenses	\$5,406,932
100%	100%	Percentages	77.9%



<u>Supporting Services</u>		
<u>Management and General</u>	<u>Development</u>	<u>Total</u>
\$519,995	\$ 209,484	\$ 729,479
105,600	53,400	159,000
31,815	9,112	40,927
4,419	1,709	6,128
-	-	-
661,829	273,705	935,534
-	-	-
-	-	-
-	-	-
-	6,855	6,855
116	-	116
11,616	-	11,616
-	-	-
-	-	-
-	-	-
643	1,284	1,927
3,659	2,717	6,376
9,572	420	9,992
-	104,827	104,827
-	-	-
-	-	-
-	-	-
-	-	-
21,984	4,270	26,254
2,235	557	2,792
-	-	-
242	581	823
-	-	-
-	-	-
12,477	8,966	21,443
3,872	44,362	48,234
-	138,994	138,994
3,378	-	3,378
40,060	12,260	52,320
-	31,315	31,315
-	-	-
-	-	-
-	-	-
3,792	3,560	7,352
-	-	-
-	-	-
8,634	6,851	15,485
10,587	9,570	20,157
4,218	4,226	8,444
15,043	5,161	20,204
5,595	1,785	7,380
819,552	662,266	1,481,818
52,169	1,069	53,238
<u>\$871,721</u>	<u>\$663,335</u>	<u>\$1,535,056</u>
<u>12.6%</u>	<u>9.5%</u>	<u>22.1%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2008  
(with comparative totals for 2007)

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.

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") to be investments, considering the intent of their investing activities.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2008  
(with comparative totals for 2007)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Financial Statements

The financial information shown for fiscal year 2007 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 2008.

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, 2008  
(with comparative totals for 2007)

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 \$563,167 and \$637,556 at October 31, 2008 and 2007 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, 2008 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, 2008  
(with comparative totals for 2007)

B. INVESTMENTS

Investments at October 31, 2008 and 2007 were as follows:

	<u>Investments Held By</u>		<u>Total 2008</u>		<u>Total 2007</u>	
	<u>TBF</u>	<u>Children's Homes</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual Funds	\$10,947,256	\$ 550,283	\$11,497,539	\$12,759,680	\$13,886,789	\$12,537,981
United States Government Securities	-	-	-	-	1,000,000	1,000,000
Certificates of Deposit	-	499,648	499,648	500,391	491,994	492,089
Insurance Policy	-	8,975	8,975	8,975	8,275	8,275
	<u>\$10,947,256</u>	<u>\$1,058,906</u>	<u>\$12,006,162</u>	<u>\$13,269,046</u>	<u>\$15,387,058</u>	<u>\$14,038,345</u>

Investments at October 31, 2008 and 2007 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>2008 (Market)</u>	<u>2007 (Market)</u>
Unrestricted	\$ 6,621,339	\$ 746,507	\$ 7,367,846	\$10,103,323
Temporarily restricted	1,650,348	181,370	1,831,718	2,557,657
Permanently restricted	<u>2,675,569</u>	<u>131,029</u>	<u>2,806,598</u>	<u>2,726,078</u>
	<u>\$10,947,256</u>	<u>\$1,058,906</u>	<u>\$12,006,162</u>	<u>\$15,387,058</u>

Interest and dividends earned on investments owned by the Children's Homes amounted to \$368,704 and \$551,403 for the years ended October 31, 2008 and 2007, respectively. This income represents yields of 2.7% and 3.9% based on the cost of such investments, and 2.6% and 3.7% based on the market of such investments for fiscal 2008 and 2007, respectively.

The total return (income yield plus investment gains and losses) on investments owned by the Children's Homes was a loss of 18.0% and a gain of 7.7% based on the cost of such investments, and a loss of 17.2% and a gain of 7.2% based on the market of such investments for fiscal years 2008 and 2007, respectively.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2008  
(with comparative totals for 2007)

B. INVESTMENTS - Continued

The TBF serves as a limited fiscal agent for certain investments in accordance with investment decisions made by the Children's Homes. The TBF transfers the income from the investments to the Children's Homes.

C. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment at October 31, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 2,929,728	\$ 2,929,728
Buildings	12,634,313	12,549,439
Furnishings and equipment	1,338,274	1,324,140
Improvements other than buildings	1,382,084	1,228,614
Other machinery and equipment	600,769	591,241
Vehicles	966,974	1,005,468
Construction in progress (estimated cost to complete at October 31, 2008 - \$1,285,000)	<u>517,173</u>	<u>520,712</u>
Total plant facilities	20,369,315	20,149,342
Less accumulated depreciation	<u>(10,782,739)</u>	<u>(10,382,068)</u>
Net investment in plant	<u>\$ 9,586,576</u>	<u>\$ 9,767,274</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2008  
(with comparative totals for 2007)

D. NOTES RECEIVABLE

Notes receivable at October 31, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</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
Notes receivable - other	<u>2,150</u>	<u>2,450</u>
	<u>\$2,150</u>	<u>\$119,220</u>

Notes receivable are collateralized by deeds of trust or title liens.

E. LEASES

The Children's Homes leased certain property on an annual basis with lease expense for fiscal 2008 and 2007 totaling \$608 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 five retired employees and two 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.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2008  
(with comparative totals for 2007)

F. POSTRETIREMENT BENEFITS - Continued

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, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,364,315	\$ 1,093,328
Service cost	39,342	34,148
Interest cost	85,402	73,681
Loss due to plan experience	-	220,860
Actual benefit disbursements	( 51,709)	( 57,702)
Change in assumptions	( 230,180)	-
Actuarial gain	<u>( 168,756)</u>	<u>-</u>
Benefit obligation at the end of year	<u>\$ 1,038,414</u>	<u>\$ 1,364,315</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	51,709	57,702
Actual benefit disbursements	<u>(51,709)</u>	<u>( 57,702)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$1,038,414</u>	<u>\$1,364,315</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$1,038,414</u>	<u>\$1,364,315</u>

The net periodic postretirement benefit costs for health care recognized during the years ended October 31, 2008 and 2007, which are included in salaries and related benefits, are comprised of the following components:

	<u>2008</u>	<u>2007</u>
Service cost (benefits earned during the period)	\$ 39,342	\$ 34,148
Interest cost on accumulated postretirement benefit obligation	85,402	73,681
Loss to the extent recognized	<u>12,061</u>	<u>-</u>
	<u>\$136,805</u>	<u>\$107,829</u>



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F. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit costs of \$136,805 and \$107,829 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2008 and 2007 respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2009.

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

	<u>2008</u>	<u>2007</u>
Healthcare costs	9.50%	9.50%
Future compensation levels	3.25%	3.50%
Discount rate	8.50%	6.25%

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>
2009	\$ 45,125	\$ 4,171	\$ 9,336	\$ 58,632
2010	50,058	4,395	2,284	56,737
2011	54,832	4,865	16,066	75,763
2012	59,320	4,681	2,424	66,425
2013	75,233	5,437	31,819	112,489
2014 - 2018	441,964	33,085	173,164	648,213

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

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F. 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, 2008 is as follows:

	Health Care Cost Trend Rate		<u>Increase</u>
	<u>9.5%</u>	<u>10.5%</u>	
Service cost	\$16,714	\$19,691	\$ 2,977
Interest cost	<u>66,971</u>	<u>74,672</u>	<u>7,701</u>
Net periodic postretirement health care benefit cost	<u>\$83,685</u>	<u>\$94,363</u>	<u>\$10,678</u>
Accumulated postretirement benefit obligation for health care benefits at October 31, 2008	<u>\$810,453</u>	<u>\$893,445</u>	<u>\$82,992</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 no retired employees receiving these supplements and no other employees are eligible for this minimum benefit guarantee. The balance in the reserve account at October 31, 2008 and 2007 was \$-0- and \$2,314, 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 \$255,767 and \$273,781 during the years ended October 31, 2008 and 2007, 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 \$19,875 and \$26,469 during the years ended October 31, 2008 and 2007, 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, 2008 and 2007 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 \$2,110,379 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, 2008 and 2007 are as follows:

	2008	2007
Residual trusts:		
Children's Homes as trustee	\$ 318,729	\$ 395,208
Held by outside trustees	<u>65,648</u>	<u>80,603</u>
Total residual trusts	384,377	475,811
 Perpetual trusts held by trustees	 <u>8,652,416</u>	 <u>10,657,681</u>
 Beneficial interests in trusts	 <u>\$9,036,793</u>	 <u>\$11,133,492</u>

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M. BENEFICIAL INTERESTS IN TRUSTS

During 2008 and 2007, the Children's Homes received interest and dividends of \$416,353 and \$409,705, respectively, on funds held in trust.