

**TENNESSEE BAPTIST  
ADULT HOMES, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**OCTOBER 31, 2008**

TENNESSEE BAPTIST ADULT HOMES, INC.

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## Independent Auditors' Report

The Board of Trustees  
Tennessee Baptist Adult Homes, Inc.  
Brentwood, Tennessee

We have audited the accompanying statement of financial position of Tennessee Baptist Adult Homes, Inc. ("Adult 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 Adult Homes' 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 Adult 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 20 - 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Crosslin & Associates, P.C.*

December 2, 2008  
Nashville, Tennessee

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

<u>ASSETS</u>		
	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 453,616	\$ 732,303
Cash escrow - Williams Ferry Pointe (Note F)	16,034	35,081
Investments held by the Tennessee Baptist Foundation (Note B)	442,342	526,838
Receivables:		
Patient receivables	-	3,570
Accounts and notes receivable - other	142,637	44,610
Contributions receivable, net (Note C)	<u>-</u>	<u>6,291</u>
Total receivables	<u>142,637</u>	<u>54,471</u>
Inventories	12,886	13,020
Prepaid expenses	74,407	57,544
Land, buildings and equipment at cost, net (Notes D and E)	4,681,039	4,686,171
Beneficial interests in trusts held by others (Note M)	595,464	742,514
Other assets	<u>30</u>	<u>30</u>
Total assets	<u>\$6,418,455</u>	<u>\$6,847,972</u>

<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable and accrued liabilities	\$ 266,068	\$ 316,344
Deferred revenue (Note F)	84,588	62,710
Postretirement benefit liability (Note I)	133,277	126,517
Notes payable (Note E)	<u>397,355</u>	<u>91,103</u>
Total liabilities	<u>881,288</u>	<u>596,674</u>
Net assets:		
Unrestricted		
Board designated	167,806	239,611
Undesignated	<u>4,494,873</u>	<u>4,971,994</u>
	4,662,679	5,211,605
Temporarily restricted (Note N)	89,499	88,279
Permanently restricted (Note N)	<u>784,989</u>	<u>951,414</u>
Total net assets	<u>5,537,167</u>	<u>6,251,298</u>
Total liabilities and net assets	<u>\$6,418,455</u>	<u>\$6,847,972</u>

See accompanying notes to financial statements.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Support and Revenue:			
Patient service revenue, net of allowances and contractual adjustments (Note H)	\$ 5,617,470	\$ -	\$ -
Allocations from the cooperative program of Tennessee Baptist Convention	334,206	-	-
Contributions and gifts	326,656	121,302	-
Investment income and gains (losses)	( 19,527)	7,510	(166,425)
Management fees - Deer Lake Retirement Village	4,860	-	-
Rental income - Baptist Village of Johnson City	15,994	-	-
Stoneway revenue	219,150	-	-
Rainbow revenue	126,604	-	-
Knoxville revenue	271,620	-	-
Lake Park revenue	134,443	-	-
Daycare revenue	180,557	-	-
Other operating revenue	30,104	-	-
Loss on disposal of property and equipment	( 80,789)	-	-
Net assets released from restrictions (Note O)	<u>127,592</u>	<u>(127,592)</u>	<u>-</u>
 Total support and revenue	 <u>7,288,940</u>	 <u>1,220</u>	 <u>(166,425)</u>
Expenses:			
Program Services:			
Stoneway expense	300,894	-	-
Rainbow expense	229,648	-	-
Scott's Hill expense	6,089	-	-
Knoxville expense	277,127	-	-
Special Friend expense	135,786	-	-
Lake Park expense	158,647	-	-
Nursing services	3,640,260	-	-
Housekeeping services	319,584	-	-
Dietary services	730,541	-	-
Maintenance services	325,495	-	-

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Total	
<u>2008</u>	<u>2007</u>
 \$ 5,617,470	 \$ 5,352,702
334,206	255,107
447,958	449,765
( 178,442)	100,083
 4,860	 4,860
15,994	11,430
219,150	214,464
126,604	116,692
271,620	226,849
134,443	126,552
180,557	137,732
30,104	51,484
( 80,789)	-
<u>-</u>	<u>-</u>
 <u>7,123,735</u>	 <u>7,047,720</u>

300,894	286,870
229,648	236,647
6,089	8,807
277,127	258,273
135,786	126,886
158,647	127,142
3,640,260	3,269,451
319,584	296,791
730,541	686,123
325,495	254,980

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.  
STATEMENT OF ACTIVITIES - Continued  
YEAR ENDED OCTOBER 31, 2008  
(with comparative totals for 2007)

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Special services	\$ 327,415	\$ -	\$ -
Depreciation	234,945	-	-
Interest	<u>15,931</u>	<u>-</u>	<u>-</u>
Total program services	6,702,362	-	-
General and administrative	<u>1,135,504</u>	<u>-</u>	<u>-</u>
Total expenses	<u>7,837,866</u>	<u>-</u>	<u>-</u>
 (Decrease) increase in net assets before effect of adoption of SFAS No. 158	 ( 548,926)	 1,220	 (166,425)
 Effect of adoption of SFAS No. 158 (Note I)	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Change in net assets	 ( 548,926)	 1,220	 (166,425)
 Net assets at beginning of year	 <u>5,211,605</u>	 <u>88,279</u>	 <u>951,414</u>
 Net assets at end of year	 <u>\$ 4,662,679</u>	 <u>\$ 89,499</u>	 <u>\$ 784,989</u>

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Total	
<u>2008</u>	<u>2007</u>
\$ 327,415	\$ 326,981
234,945	236,995
<u>15,931</u>	<u>7,986</u>
6,702,362	6,123,932
<u>1,135,504</u>	<u>1,038,127</u>
<u>7,837,866</u>	<u>7,162,059</u>
( 714,131)	( 114,339)
<u>-</u>	<u>184,207</u>
( 714,131)	69,868
<u>6,251,298</u>	<u>6,181,430</u>
<u>\$ 5,537,167</u>	<u>\$ 6,251,298</u>

See accompanying notes to financial statements.



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

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	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$(714,131)	\$ 69,868
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	234,945	236,995
Loss on disposal of property and equipment	80,789	-
Net losses (gains) on investments and beneficial interests in trusts	245,997	( 36,554)
Effect of adoption of SFAS No. 158	-	(184,207)
Gifts restricted for long-term investment	-	( 72,046)
(Increase) decrease in receivables	( 3,166)	270,481
Increase in prepaid expenses and other assets	( 16,863)	( 35,210)
Decrease (increase) in inventories	134	( 1,142)
Decrease in accounts payable and accrued liabilities	( 50,276)	( 9,261)
Increase in deferred revenue, net	40,925	11,567
Increase (decrease) in postretirement benefit liability	<u>6,760</u>	<u>( 9,319)</u>
Net cash (used in) provided by operating activities	<u>(174,886)</u>	<u>241,172</u>
Cash flows from investing activities:		
Purchases of property and equipment	(361,687)	(191,461)
Proceeds from sale of property and equipment	51,085	-
Issuance of notes receivable	( 85,000)	-
Net purchases of investments	<u>( 14,451)</u>	<u>( 90,651)</u>
Net cash used in investing activities	<u>(410,053)</u>	<u>(282,112)</u>
Cash flows from financing activities:		
Gifts restricted for long-term investment	-	72,046
Net change in line-of-credit	318,084	-
Payments on notes payable	<u>( 11,832)</u>	<u>( 97,046)</u>
Net cash provided by (used in) financing activities	<u>306,252</u>	<u>( 25,000)</u>
Net decrease in cash	(278,687)	( 65,940)
Cash and cash equivalents at beginning of year	<u>732,303</u>	<u>798,243</u>
Cash and cash equivalents at end of year	<u>\$ 453,616</u>	<u>\$ 732,303</u>
Additional information:		
Interest paid	<u>\$ 15,931</u>	<u>\$ 7,986</u>

See accompanying notes to financial statements.

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

	Program Services	General and Administrative	Total	
			2008	2007
Salaries	\$3,787,443	\$ 507,416	\$4,294,859	\$3,993,885
Employee benefits	<u>676,276</u>	<u>140,635</u>	<u>816,911</u>	<u>702,136</u>
Total salaries and related benefits	<u>4,463,719</u>	<u>648,051</u>	<u>5,111,770</u>	<u>4,696,021</u>
Advertising, marketing and recruitment	3,572	146,805	150,377	193,774
Bed taxes and licenses	236,664	-	236,664	237,453
Depreciation	203,458	31,487	234,945	236,995
Food supplies	461,910	-	461,910	434,292
Freight	12,125	-	12,125	6,272
Insurance	284,867	28,044	312,911	264,140
Interest	15,931	-	15,931	7,986
Laundry	82,750	-	82,750	81,472
Maintenance and repairs	40,673	-	40,673	26,844
Memberships, dues and subscriptions	785	11,137	11,922	12,556
Miscellaneous	23,789	89,480	113,269	100,309
Professional and consulting services	-	9,785	9,785	10,773
Property taxes	9,728	13,389	23,117	27,337
Purchased services	79,922	70,681	150,603	78,365
Resident activities	11,268	-	11,268	5,829
Resident allowances	16,245	-	16,245	15,698
Special friends camps	63,100	-	63,100	59,266
Supplies	354,997	19,368	374,365	326,019
Training	13,908	146	14,054	18,202
Travel and auto	45,505	33,511	79,016	69,256
Uniforms	8,596	-	8,596	4,333
Utilities	<u>268,850</u>	<u>33,620</u>	<u>302,470</u>	<u>248,867</u>
Total Expenses	<u>\$6,702,362</u>	<u>\$1,135,504</u>	<u>\$7,837,866</u>	<u>\$7,162,059</u>
Percentages	<u>85.51%</u>	<u>14.49%</u>	<u>100.00%</u>	<u>100.00%</u>

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Adult Homes' principal revenue sources, in addition to support from the Tennessee Baptist Convention, consist of operating an intermediate nursing care, assisted living and daycare facility (Baptist Health Care Center) in Lenoir City, Tennessee; and adult group homes in Jacksboro/Knoxville, Lebanon, and Hermitage, Tennessee (Rainbow Acres, Stoneway Acres, and Lake Park Home). In addition, Adult Homes receives management fees from Deer Lake Retirement Village and Baptist Health Care Center, rental income from elderly housing at Baptist Village of Johnson City, and fees under sponsorship agreements (See Note G). Adult Homes is currently in the planning and development stages for the construction of an adult independent living community, Williams Ferry Pointe, located in Lenoir City.

Basis of Presentation

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

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

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

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

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

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

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 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.

Contributions

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

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

Inventories

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

Land, Buildings and Equipment

Land, buildings, improvements, furniture, equipment and vehicles are stated in the accompanying statement of financial position at cost or, if contributed, at fair value at date of gift. It is Adult Homes' policy to capitalize expenditures for these items in excess of \$500.

Depreciation of buildings, improvements, furniture, equipment and vehicles is provided over the estimated useful lives of the respective assets using the straight-line method.

Income Taxes

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

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimates

Judgment and estimation are exercised by management in certain areas of the preparation of financial statements. The more significant areas include the collectibility of receivables, the recovery period for buildings and equipment and the determination of the postretirement benefit liability. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying value of cash, receivables, accounts payable and accrued liabilities approximates fair value because of the short maturity of these instruments. The carrying value of other liabilities and long-term debt are not materially different from the estimated fair value of these instruments.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Adult Homes considers all cash and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Adult Homes maintains cash balances in financial institutions that it considers to be high quality financial institutions.

Investments

Adult Homes is required to report investments at fair value with gains and losses included in the statement of activities.

Contributions Receivable

Contributions receivable are recorded at their estimated fair value and reflect discounts for payment terms greater than one year. Under the provisions of SFAS No. 116, contributions receivable are considered to be either conditional or unconditional promises to give. A conditional contribution is one which depends on the occurrence of some specified uncertain future event to become binding on the donor. Conditional contributions are not recorded as revenue until the condition is met, at which time they become unconditional. Unconditional contributions are recorded as revenue at the time verifiable evidence of the pledge is received.

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

B. INVESTMENTS HELD BY THE TENNESSEE BAPTIST FOUNDATION

Investments at October 31 are summarized as follows:

	<u>Total 2008</u>		<u>Total 2007</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual funds	\$188,916	\$256,522	\$268,033	\$245,009
Bonds and notes	241,336	249,746	244,022	247,808
Stock	<u>12,090</u>	<u>16,000</u>	<u>14,783</u>	<u>15,000</u>
	<u>\$442,342</u>	<u>\$522,268</u>	<u>\$526,838</u>	<u>\$507,817</u>

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

	<u>Total</u>	
	<u>2008</u>	<u>2007</u>
	<u>Market</u>	<u>Market</u>
Unrestricted	\$163,318	\$236,087
Temporarily restricted	18,353	24,118
Permanently restricted	<u>260,671</u>	<u>266,633</u>
	<u>\$442,342</u>	<u>\$526,838</u>

Income and gains (losses) on investments owned by Adult Homes and beneficial interests in trusts held by others amounted to \$(178,442) and \$100,083 for the years ended October 31, 2008 and 2007, respectively. This income and gains represent a yield of (15.5)% and 8.3% based on the average market of such investments and beneficial interests in trusts held by others for fiscal 2008 and 2007, respectively.

C. CONTRIBUTIONS RECEIVABLE

Contributions receivable at October 31 consisted of the following:

	<u>2008</u>	<u>2007</u>
Contributions receivable	\$ -	\$ 71,910
Less allowance for uncollectible contributions receivable	<u>-</u>	<u>(65,619)</u>
	<u>\$ -</u>	<u>\$ 6,291</u>

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

D. LAND, BUILDINGS AND EQUIPMENT

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

	<u>2008</u>	<u>2007</u>
Land and improvements	\$ 1,189,992	\$ 1,208,050
Buildings	5,459,834	5,688,329
Building improvements	643,546	631,218
Leasehold improvements	2,185	2,185
Furniture, equipment and automotive equipment	1,072,505	1,095,123
Construction in progress	<u>654,216</u>	<u>360,063</u>
	9,022,278	8,984,968
Less accumulated depreciation	<u>(4,341,239)</u>	<u>(4,298,797)</u>
	<u>\$ 4,681,039</u>	<u>\$ 4,686,171</u>

Fully depreciated assets with a cost of \$1,590,103 were still in use at October 31, 2008.

Construction in progress reported by Adult Homes is composed primarily of two model homes, architectural and engineering costs and site preparation related to the construction of Williams Ferry Pointe, an adult independent living project. Construction on the project has not fully commenced as the result of a sewer moratorium imposed by Lenoir City in August 2006, limiting major infrastructure additions to the City's sewer system. When the moratorium is lifted, it is anticipated that construction on the project will continue.

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

E. NOTES PAYABLE

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

	<u>2008</u>	<u>2007</u>
Note payable to bank under a \$350,000 revolving line-of-credit. Interest is paid monthly at the annual rate of 7% through July 2009 at which time all outstanding interest and principal is due. Available borrowings at October 31, 2008 were \$116,916. The note is collateralized by a deed of trust on certain property.	\$233,084	\$ -
Note payable to bank, payable in monthly installments of \$1,308, including interest of 5.60% through September 2009, at which time all outstanding principal and interest is due. The note is collateralized by a deed of trust on certain property.	79,271	91,103
Note payable to bank under a \$200,000 revolving line-of-credit. Interest is payable monthly at a variable interest rate and is due on demand. Available borrowings at October 31, 2008 were \$115,000. The line-of-credit is unsecured.	<u>85,000</u>	<u>-</u>
	<u>\$397,355</u>	<u>\$91,103</u>

Maturities of the notes payable are as follows:

<u>Year Ending</u> <u>October 31,</u>	<u>Amount</u>
2009	<u>\$397,355</u>



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

F. DEFERRED REVENUE

Adult Homes is currently collecting membership and lease agreement fees from future residents of the Williams Ferry Pointe adult independent living community.

Membership fees represent a one time fee paid by each future resident of the community in the amount of \$2,000. As of October 31, 2008 and 2007, Adult Homes reported as deferred revenue membership fees in the amount of \$4,000 and \$8,000, respectively.

Lease agreement fees represent a one time fee made by each future home owner for the lease of land on which each home will be constructed. The fee is earned by Adult Homes over a four year period. A pro-rata refund is available to home owners who leave the community prior to the end of the four year period. As of October 31, 2008 and 2007, Adult Homes reported as deferred revenue lease agreement fees in the amount of \$12,000 and \$27,000, respectively.

As of October 31, 2008, construction of Williams Ferry Pointe has not commenced, therefore all fees are refundable and have not been earned by Adult Homes.

Deferred revenue also includes certain fees totaling \$68,588 and \$27,710 collected from residents of Adult Homes facilities and/or Medicaid for services not yet provided as of October 31, 2008 and 2007, respectively.

G. SPONSORSHIP AGREEMENTS

Deer Lake Retirement Village

Adult Homes sponsors the Deer Lake Retirement Village. Additionally, its responsibility includes appointing certain directors to the Deer Lake Retirement Association Board of Directors and ministering to the homeowners. The President/Treasurer of Adult Homes is also the President of the Homeowners Association and, in this capacity, manages financial activities of the Homeowners Association. Adult Homes receives \$405 per month from the Homeowners Association for reimbursement of financial and other office services, including the bookkeeping function.

The Homeowners Association of Deer Lake is not considered an affiliated entity of Adult Homes and, accordingly, its accounts are not included in the accompanying financial statements.

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

H. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2008</u>	<u>2007</u>
Patient service revenue	\$ 5,723,348	\$ 5,471,273
Less contractual adjustments	<u>( 105,878)</u>	<u>( 118,571)</u>
	<u>\$ 5,617,470</u>	<u>\$ 5,352,702</u>

Approximately 43% and 48% of patient revenue is from Medicaid for the years ended October 31, 2008 and 2007, respectively.

I. POSTRETIREMENT BENEFITS

Adult Homes offers postretirement health care benefits, dependent health care benefits on a shared cost basis, and life insurance to its employees provided they remain employed until retirement.

Effective for the year ended October 31, 2007, Adult Homes adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires Adult 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 No. 106, are required to be recognized on the statement of financial position and as a separate item on the statement of activities.

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

I. POSTRETIREMENT BENEFITS - Continued

The adoption of the statement resulted in a decrease in the postretirement benefits liability and an increase in the change in unrestricted net assets of \$184,207 for the year ended October 31, 2007. The status of the plan at October 31 was as follows:

	<u>2008</u>	<u>2007</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 126,517	\$ 120,100
Net periodic postretirement benefit cost	12,976	12,633
Actual benefit disbursements	<u>( 6,216)</u>	<u>( 6,216)</u>
Benefit obligation at the end of year	<u>\$ 133,277</u>	<u>\$ 126,517</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	6,216	6,216
Actual benefit disbursements	<u>( 6,216)</u>	<u>( 6,216)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$133,277</u>	<u>\$126,517</u>
Net postretirement benefit liability recognized in statements of financial position	<u>\$133,277</u>	<u>\$126,517</u>

The net periodic postretirement benefit cost recognized during the years ended October 31, 2008 and 2007 was \$12,976 and \$12,633, respectively.

The accumulated postretirement benefit obligation and the net periodic postretirement benefit cost recognized were determined using assumed annual increases in health care costs of 8% for fiscal 2008 and 2007, and future compensation levels of 5%. In addition, a discount rate of 6.50% was assumed for fiscal 2008 and 2007, respectively.

At October 31, 2008, Adult Homes' assets with a fair value totaling \$42,342 have been designated to fund the obligation.

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

J. RETIREMENT PLAN

Adult Homes and Baptist Health Care Center participate in the retirement program of GuideStone Financial Resources of the Southern Baptist Convention. The plans are defined contribution plans that cover substantially all full-time employees. Adult Homes contributes an amount equal to 11% of the participants' compensation for administrative division employees. For the non-administrative division, employee contributions of up to 6% are matched by Adult Homes. Baptist Health Care Center provides a contribution-matching program to its employees. Pension expense for the years ended October 31, 2008 and 2007, was \$58,372 and \$49,220, respectively.

K. RELATED PARTY TRANSACTIONS

Adult Homes occupies office space in the Tennessee Baptist Convention building in Brentwood, Tennessee. Adult Homes pays the Convention an annual use charge for the facilities which amounted to \$23,769 and \$16,797 for 2008 and 2007, respectively.

L. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject Adult Homes to concentrations of credit risk consist principally of cash and investments held by Adult Homes and the Tennessee Baptist Foundation. Cash at October 31, 2008 includes demand deposits at high 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 Adult Homes' investment objectives and policies of maintaining a variety of quality investments. Credit risk also extends to uncollateralized receivables, net of allowances.

M. BENEFICIAL INTERESTS IN TRUSTS HELD BY OTHERS

Beneficial interest in trusts held by others were \$595,464 and \$742,514 at October 31, 2008 and 2007, respectfully. These funds name Adult Homes as a beneficiary and are held by the Tennessee Baptist Foundation.

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

N. NET ASSETS

Temporarily restricted net assets at October 31, 2008 and 2007 are available for program services. Permanently restricted net assets at October 31, 2008 and 2007 consist of endowment funds and Adult Homes' beneficial interests in perpetual trusts held by others.

O. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$127,592 and \$79,631 for fiscal 2008 and 2007, respectively, were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. The purpose restrictions accomplished were for program services.

P. FUND RAISING AND ADVERTISING COSTS

Adult Homes expenses the cost of fund raising and advertising as incurred. These costs for the year ended October 31, 2008 and 2007 were \$71,832 and \$63,031, respectively.

Q. LITIGATION AND CONTINGENCIES

Adult Homes is a defendant in legal actions from time to time in the normal course of operations. It is not possible to state the ultimate liability, if any, in these matters. In the opinion of management and legal counsel, any resulting liability from these actions will not have a material adverse effect on the results of activities or the financial position of Adult Homes.

## **SUPPLEMENTARY INFORMATION**

TENNESSEE BAPTIST ADULT HOMES, INC.  
COMBINING SCHEDULE - STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2008

	<u>ASSETS</u>			
	Tennessee Baptist Adult Homes	Baptist Health Care Center (A Division) of TBAH)	<u>Eliminations</u>	<u>Total</u>
Cash and cash equivalents	\$ 169,965	\$ 283,651	\$ -	\$ 453,616
Cash escrow - Williams Ferry Pointe	-	16,034	-	16,034
Investments held by Tennessee Baptist Foundation	442,342	-	-	442,342
Receivables:				
Patient receivables	-	-	-	-
Accounts and notes receivable - other	142,637	-	-	142,637
Contributions receivable, net	-	-	-	-
Total receivables	<u>142,637</u>	<u>-</u>	<u>-</u>	<u>142,637</u>
Inventories	-	12,886	-	12,886
Prepaid expenses	53,859	20,548	-	74,407
Land, buildings and equipment at cost, net	1,943,210	2,737,829	-	4,681,039
Beneficial interests in trusts held by others	595,464	-	-	595,464
Other assets	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
Total assets	<u>\$3,347,477</u>	<u>\$3,070,978</u>	<u>\$ -</u>	<u>\$6,418,455</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 31,709	\$ 234,359	\$ -	\$ 266,068
Deferred revenue	13,576	71,012	-	84,588
Postretirement benefit liability	133,277	-	-	133,277
Notes payable	<u>85,000</u>	<u>312,355</u>	<u>-</u>	<u>397,355</u>
Total liabilities	<u>263,562</u>	<u>617,726</u>	<u>-</u>	<u>881,288</u>
Net assets:				
Unrestricted				
Board designated	167,806	-	-	167,806
Undesignated	<u>2,041,621</u>	<u>2,453,252</u>	<u>-</u>	<u>4,494,873</u>
	2,209,427	2,453,252	-	4,662,679
Temporarily restricted	89,499	-	-	89,499
Permanently restricted	<u>784,989</u>	<u>-</u>	<u>-</u>	<u>784,989</u>
Total net assets	<u>3,083,915</u>	<u>2,453,252</u>	<u>-</u>	<u>5,537,167</u>
Total liabilities and net assets	<u>\$3,347,477</u>	<u>\$3,070,978</u>	<u>\$ -</u>	<u>\$6,418,455</u>

See accompanying independent auditors' report.

TENNESSEE BAPTIST ADULT HOMES, INC.  
COMBINING SCHEDULE - STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2008

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	Tennessee Baptist Adult <u>Homes</u>	Baptist Health Care Center (A Division) <u>of TBAH)</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenue:				
Patient service revenue, net of allowances and contractual adjustments	\$ -	\$5,617,470	\$ -	\$ 5,617,470
Allocations from the cooperative program of Tennessee Baptist Convention	334,206	-	-	334,206
Contributions and gifts	423,173	24,785	-	447,958
Investment income and gains (losses)	( 178,442)	-	-	( 178,442)
Management and other fees - Baptist Health Care Center	60,000	-	(60,000)	-
Management fees - Deer Lake Retirement Village	4,860	-	-	4,860
Rental income - Baptist Village of Johnson City	15,994	-	-	15,994
Stoneway revenue	219,150	-	-	219,150
Rainbow revenue	126,604	-	-	126,604
Knoxville revenue	271,620	-	-	271,620
Lake Park revenue	134,443	-	-	134,443
Daycare revenue	-	180,557	-	180,557
Other operating revenue	-	30,104	-	30,104
Loss on disposal of property and equipment	( 80,789)	-	-	( 80,789)
Total support and revenue	<u>1,330,819</u>	<u>5,852,916</u>	<u>(60,000)</u>	<u>7,123,735</u>
Expenses:				
Program Services:				
Stoneway expense	300,894	-	-	300,894
Rainbow expense	229,648	-	-	229,648
Scott's Hill expense	6,089	-	-	6,089
Knoxville expense	277,127	-	-	277,127
Special Friend expense	135,786	-	-	135,786
Lake Park expense	158,647	-	-	158,647
Nursing services	-	3,640,260	-	3,640,260
Housekeeping services	-	319,584	-	319,584
Dietary services	-	730,541	-	730,541
Maintenance services	-	325,495	-	325,495



TENNESSEE BAPTIST ADULT HOMES, INC.  
 COMBINING SCHEDULE - STATEMENT OF ACTIVITIES - Continued  
 YEAR ENDED OCTOBER 31, 2008

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	Tennessee Baptist Adult Homes	Baptist Health Care Center (A Division) of TBAH)	Eliminations	Total
Special services	-	327,415	-	327,415
Depreciation	121,217	113,728	-	234,945
Interest	-	15,931	-	15,931
Total program services	1,229,408	5,472,954	-	6,702,362
General and administrative	498,624	696,880	(60,000)	1,135,504
Total expenses	<u>1,728,032</u>	<u>6,169,834</u>	<u>(60,000)</u>	<u>7,837,866</u>
Change in net assets	( 397,213)	( 316,918)	-	( 714,131)
Net assets at beginning of year	<u>3,481,128</u>	<u>2,770,170</u>	<u>-</u>	<u>6,251,298</u>
Net assets at end of year	<u>\$ 3,083,915</u>	<u>\$ 2,453,252</u>	<u>\$ -</u>	<u>\$ 5,537,167</u>

See accompanying independent auditors' report.