

**TENNESSEE BAPTIST
ADULT HOMES, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

OCTOBER 31, 2009

TENNESSEE BAPTIST ADULT HOMES, INC.

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Independent Auditors' Report

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

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 24 - 26 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 7, 2009
Nashville, Tennessee

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

<u>ASSETS</u>		
	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 265,264	\$ 453,616
Cash escrow - Williams Ferry Pointe (Note E)	16,115	16,034
Investments held by the Tennessee Baptist Foundation (Note B)	1,222,152	442,342
Receivables:		
Patient receivables	223,552	-
Accounts and notes receivable - other	<u>187,118</u>	<u>142,637</u>
Total receivables	<u>410,670</u>	<u>142,637</u>
Inventories	13,970	12,886
Prepaid expenses	61,433	74,407
Land, buildings and equipment at cost, net (Notes C and D)	4,673,718	4,681,039
Beneficial interests in trusts held by others (Note L)	749,423	595,464
Other assets	<u>30</u>	<u>30</u>
 Total assets	 <u>\$7,412,775</u>	 <u>\$6,418,455</u>

<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable and accrued liabilities	\$ 270,134	\$ 266,068
Deferred revenue (Note E)	30,064	84,588
Postretirement benefit liability (Note H)	140,380	133,277
Notes payable (Note D)	<u>537,619</u>	<u>397,355</u>
Total liabilities	<u>978,197</u>	<u>881,288</u>
Net assets:		
Unrestricted		
Board designated	937,084	167,806
Undesignated (Note O)	<u>4,455,783</u>	<u>4,489,416</u>
	5,392,867	4,657,222
Temporarily restricted (Notes M and O)	132,371	108,791
Permanently restricted (Notes M and O)	<u>909,340</u>	<u>771,154</u>
Total net assets	<u>6,434,578</u>	<u>5,537,167</u>
 Total liabilities and net assets	 <u>\$7,412,775</u>	 <u>\$6,418,455</u>

See accompanying notes to financial statements.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Support and Revenue:			
Patient service revenue, net of allowances and contractual adjustments (Note G)	\$ 5,979,893	\$ -	\$ -
Allocations from the cooperative program of Tennessee Baptist Convention	330,564	-	-
Contributions and gifts	1,117,411	93,527	103,277
Investment income and gains (losses)	26,606	48,294	34,909
Management fees - Deer Lake Retirement Village	4,860	-	-
Rental income - Baptist Village of Johnson City	15,961	-	-
Stoneway revenue	227,060	-	-
Rainbow revenue	120,786	-	-
Knoxville revenue	229,242	-	-
Lake Park revenue	142,868	-	-
Daycare revenue	172,698	-	-
Other operating revenue	35,523	-	-
Loss on disposal of property and equipment	-	-	-
Net assets released from restrictions (Note N)	<u>118,241</u>	<u>(118,241)</u>	<u>-</u>
 Total support and revenue	 <u>8,521,713</u>	 <u>23,580</u>	 <u>138,186</u>
Expenses:			
Program Services:			
Stoneway expense	325,826	-	-
Rainbow expense	248,359	-	-
Scott's Hill expense	-	-	-
Knoxville expense	284,129	-	-
Special Friend expense	136,688	-	-
Lake Park expense	157,396	-	-
Nursing services	3,607,004	-	-
Housekeeping services	324,623	-	-
Dietary services	703,731	-	-
Maintenance services	302,828	-	-

Total	
<u>2009</u>	<u>2008</u>
\$5,979,893	\$ 5,617,470
330,564	334,206
1,314,215	447,958
109,809	(178,442)
4,860	4,860
15,961	15,994
227,060	219,150
120,786	126,604
229,242	271,620
142,868	134,443
172,698	180,557
35,523	30,104
-	(80,789)
<u>-</u>	<u>-</u>
<u>8,683,479</u>	<u>7,123,735</u>

325,826	300,894
248,359	229,648
-	6,089
284,129	277,127
136,688	135,786
157,396	158,647
3,607,004	3,640,260
324,623	319,584
703,731	730,541
302,828	325,495

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF ACTIVITIES - Continued
YEAR ENDED OCTOBER 31, 2009
(with comparative totals for 2008)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Special services	\$ 327,354	\$ -	\$ -
Depreciation	225,260	-	-
Interest	<u>26,173</u>	<u>-</u>	<u>-</u>
Total program services	6,669,371	-	-
General and administrative	<u>1,116,697</u>	<u>-</u>	<u>-</u>
Total expenses	<u>7,786,068</u>	<u>-</u>	<u>-</u>
Change in net assets	735,645	23,580	138,186
Net assets, beginning of year, as restated (Notes A and O)	<u>4,657,222</u>	<u>108,791</u>	<u>771,154</u>
Net assets, end of year	<u>\$5,392,867</u>	<u>\$132,371</u>	<u>\$909,340</u>

Total	
<u>2009</u>	<u>2008</u>
\$ 327,354	\$ 327,415
225,260	234,945
<u>26,173</u>	<u>15,931</u>
6,669,371	6,702,362
<u>1,116,697</u>	<u>1,135,504</u>
<u>7,786,068</u>	<u>7,837,866</u>
897,411	(714,131)
<u>5,537,167</u>	<u>6,251,298</u>
<u>\$6,434,578</u>	<u>\$ 5,537,167</u>

See accompanying notes to financial statements.

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

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 897,411	\$(714,131)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	225,260	234,945
Loss on disposal of property and equipment	-	80,789
Net (gains) losses on investments and beneficial interests in trusts	(79,295)	245,997
Gifts restricted for long-term investment	(103,277)	-
Increase in receivables	(228,033)	(3,166)
Decrease (increase) in prepaid expenses and other assets	12,974	(16,863)
(Increase) decrease in inventories	(1,084)	134
Increase (decrease) in accounts payable and accrued liabilities	4,066	(50,276)
(Decrease) increase in deferred revenue, net	(54,605)	40,925
Increase in postretirement benefit liability	<u>7,103</u>	<u>6,760</u>
Net cash provided by (used in) operating activities	<u>680,520</u>	<u>(174,886)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(217,939)	(361,687)
Proceeds from sale of property and equipment	-	51,085
Issuance of notes receivable	(40,000)	(85,000)
Net purchases of investments	<u>(854,474)</u>	<u>(14,451)</u>
Net cash used in investing activities	<u>(1,112,413)</u>	<u>(410,053)</u>
Cash flows from financing activities:		
Gifts restricted for long-term investment	103,277	-
Proceeds from issuance of notes payable	329,030	-
Net change in line-of-credit	(176,934)	318,084
Payments on notes payable	<u>(11,832)</u>	<u>(11,832)</u>
Net cash provided by financing activities	<u>243,541</u>	<u>306,252</u>
Net decrease in cash and cash equivalents	(188,352)	(278,687)
Cash and cash equivalents, beginning of year	<u>453,616</u>	<u>732,303</u>
Cash and cash equivalents, end of year	<u>\$ 265,264</u>	<u>\$ 453,616</u>
Additional information:		
Interest paid	<u>\$ 26,173</u>	<u>\$ 15,931</u>

See accompanying notes to financial statements.

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

	Program Services	General and Administrative	Total	
			2009	2008
Salaries	\$3,832,470	\$ 529,588	\$4,362,058	\$4,294,859
Employee benefits	<u>734,370</u>	<u>146,776</u>	<u>881,146</u>	<u>816,911</u>
Total salaries and related benefits	4,566,840	676,364	5,243,204	5,111,770
Advertising, marketing and recruitment	4,085	114,819	118,904	150,377
Bed taxes and licenses	236,205	-	236,205	236,664
Depreciation	225,260	-	225,260	234,945
Food supplies	451,355	-	451,355	461,910
Freight	20,316	-	20,316	12,125
Insurance	252,315	28,681	280,996	312,911
Interest	26,173	-	26,173	15,931
Laundry	90,259	-	90,259	82,750
Maintenance and repairs	22,488	2,957	25,445	40,673
Memberships, dues and subscriptions	567	11,985	12,552	11,922
Miscellaneous	5,065	122,924	127,989	113,269
Professional and consulting services	6,700	5,032	11,732	9,785
Property taxes	5,111	20,825	25,936	23,117
Purchased services	30,844	53,791	84,635	150,603
Resident activities	9,621	-	9,621	11,268
Resident allowances	19,267	-	19,267	16,245
Special friends camps	63,161	-	63,161	63,100
Supplies	327,894	20,706	348,600	374,365
Training	6,379	560	6,939	14,054
Travel and auto	37,782	25,772	63,554	79,016
Uniforms	3,856	-	3,856	8,596
Utilities	<u>257,828</u>	<u>32,281</u>	<u>290,109</u>	<u>302,470</u>
Total Expenses	<u>\$6,669,371</u>	<u>\$1,116,697</u>	<u>\$7,786,068</u>	<u>\$7,837,866</u>
Percentages	<u>85.66%</u>	<u>14.34%</u>	<u>100.00%</u>	<u>100.00%</u>

See accompanying notes to financial statements.

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

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 F). 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, 2009
(with comparative totals for 2008)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Financial Totals and Reclassifications

The financial information shown for fiscal year 2008 in the accompanying statement of financial position, statement of activities, statement of cash flows and statement of functional expenses is included to provide a basis for comparison with fiscal year 2009. Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported total net assets. However, the effect of adoption of FSP No. FAS 117-1 resulted in a decrease in unrestricted net assets, of \$5,457, an increase in temporarily restricted net assets of \$19,292, and a decrease in permanently restricted net assets of \$13,835, effective October 31, 2008 (See Note O).

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.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 Measurements

Effective November 1, 2008, Adult Homes adopted FASB Codification 820-10, *Fair Value Measurements and Disclosures*, which established a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosures regarding the use of fair value measures. The adoption of FASB Codification 820-10 did not have an impact on Adult Homes' financial position or changes in net assets. Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note P). Level inputs, as defined by FASB Codification 820-10, are as follows:

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

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

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

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, 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.

B. INVESTMENTS HELD BY THE TENNESSEE BAPTIST FOUNDATION

Investments at October 31 are summarized as follows:

	<u>Total 2009</u>		<u>Total 2008</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual funds	\$1,052,067	\$1,102,479	\$188,916	\$256,522
Bonds and notes	170,085	170,448	241,336	249,746
Stock	<u>-</u>	<u>-</u>	<u>12,090</u>	<u>16,000</u>
	<u>\$1,222,152</u>	<u>\$1,272,927</u>	<u>\$442,342</u>	<u>\$522,268</u>

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

	<u>Total</u>	
	<u>2009</u>	<u>2008</u>
	<u>Market</u>	<u>Market</u>
Unrestricted	\$ 929,863	\$170,063
Temporarily restricted	45,453	25,443
Permanently restricted	<u>246,836</u>	<u>246,836</u>
	<u>\$1,222,152</u>	<u>\$442,342</u>

Income and gains (losses) on investments owned by Adult Homes and beneficial interests in trusts held by others amounted to \$109,809 and \$(178,442) for the years ended October 31, 2009 and 2008, respectively. This income and gains (losses) represent a yield of 7.3% and (15.5%) based on the average market of such investments and beneficial interests in trusts held by others for fiscal 2009 and 2008, respectively.

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

C. LAND, BUILDINGS AND EQUIPMENT

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

	<u>October 31,</u>	
	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 1,186,158	\$ 1,189,992
Buildings	5,463,668	5,459,834
Building improvements	723,126	643,546
Leasehold improvements	2,185	2,185
Furniture, equipment and automotive equipment	1,059,137	1,072,505
Construction in progress	<u>729,344</u>	<u>654,216</u>
	9,163,618	9,022,278
Less accumulated depreciation	<u>(4,489,900)</u>	<u>(4,341,239)</u>
	<u>\$ 4,673,718</u>	<u>\$ 4,681,039</u>

Fully depreciated assets with a cost of \$1,970,290 were still in use at October 31, 2009.

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. Since the moratorium has been lifted, it is anticipated that construction on the project will continue.

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

D. NOTES PAYABLE

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

	<u>2009</u>	<u>2008</u>
Note payable to bank under a \$350,000 revolving line-of-credit. Interest was paid monthly at the annual rate of 7.00% through July 2009 at which time all outstanding interest and principal was due. The note was collateralized by a deed of trust on certain property.	\$ -	\$233,084
Note payable to bank, payable in monthly installments of \$2,407, including interest of 6.25% through July 2012, at which time all outstanding principal and interest is due. The note is collateralized by a deed of trust on certain property.	326,947	-
Note payable to bank under a \$660,000 construction line-of-credit. Interest is paid monthly at the annual rate of the Wall Street Journal U.S. Prime Rate plus .50%, but not less than 4.00% and not more than 21.00%, (4.00% at October 31, 2009) through March 2010, at which time all outstanding interest and principal is due. The note is collateralized by a deed of trust on certain property.	15,602	-
Note payable to bank under a \$90,000 construction line-of-credit. Interest is paid monthly at the annual rate of the Wall Street Journal U.S. Prime Rate plus .50%, but not less than 4.00% and not more than 21.00%, through March 2010, at which time all outstanding interest and principal is due. The note is collateralized by a deed of trust on certain property.	-	-
Note payable to bank, payable in monthly installments of \$1,327, including interest of 5.25% through October 2011, at which time all outstanding principal and interest is due. The note is collateralized by a deed of trust on certain property.	70,070	79,271

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

D. NOTES PAYABLE - Continued

	<u>2009</u>	<u>2008</u>
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, 2009 were \$75,000. The line-of-credit is unsecured.	<u>125,000</u>	<u>85,000</u>
	<u>\$537,619</u>	<u>\$397,355</u>

Maturities of the notes payable are as follows:

<u>Year Ending October 31,</u>	<u>Amount</u>
2010	\$161,823
2011	66,735
2012	<u>309,061</u>
	<u>\$537,619</u>

E. 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, 2009 and 2008, Adult Homes reported as deferred revenue membership fees in the amount of \$4,000.

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 homeowners who leave the community prior to the end of the four-year period. As of October 31, 2009 and 2008, Adult Homes reported as deferred revenue lease agreement fees in the amount of \$12,000.

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

E. DEFERRED REVENUE - Continued

As of October 31, 2009, 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 \$14,064 and \$68,588 collected from residents of the nursing facility and/or Medicaid for services not yet provided as of October 31, 2009 and 2008, respectively.

F. 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.

G. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2009</u>	<u>2008</u>
Patient service revenue	\$ 6,190,957	\$ 5,723,348
Less contractual adjustments	<u>(211,064)</u>	<u>(105,878)</u>
	<u>\$ 5,979,893</u>	<u>\$ 5,617,470</u>

Approximately 45% and 43% of patient revenue is from Medicaid for the years ended October 31, 2009 and 2008, respectively.

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

H. 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.

The status of the plan at October 31 was as follows:

	<u>2009</u>	<u>2008</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 133,277	\$ 126,517
Net periodic postretirement benefit cost	13,319	12,976
Actual benefit disbursements	<u>(6,216)</u>	<u>(6,216)</u>
Benefit obligation at the end of year	<u>\$ 140,380</u>	<u>\$ 133,277</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>\$140,380</u>	<u>\$133,277</u>
Net postretirement benefit liability recognized in statements of financial position	<u>\$140,380</u>	<u>\$133,277</u>

The net periodic postretirement benefit cost recognized during the years ended October 31, 2009 and 2008 was \$13,319 and \$12,976, 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 2009 and 2008, and future compensation levels of 5%. In addition, a discount rate of 6.50% was assumed for fiscal 2009 and 2008.

At October 31, 2009, Adult Homes' assets with a fair value totaling \$47,035 have been designated to fund the obligation.

TENNESSEE BAPTIST ADULT HOMES, INC.
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I. 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, 2009 and 2008, was \$68,938 and \$58,372, respectively.

J. 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 \$22,109 and \$23,769 for 2009 and 2008, respectively.

K. 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, 2009 includes demand deposits at certain 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.

L. BENEFICIAL INTERESTS IN TRUSTS HELD BY OTHERS

Beneficial interest in trusts held by others were \$749,423 and \$595,464 at October 31, 2009 and 2008, respectively. These funds name Adult Homes as a beneficiary and are held by the Tennessee Baptist Foundation.

M. NET ASSETS

Temporarily restricted net assets at October 31, 2009 and 2008 are available for program services. Permanently restricted net assets at October 31, 2009 and 2008 consist of endowment funds and Adult Homes' beneficial interests in perpetual trusts held by others.

TENNESSEE BAPTIST ADULT HOMES, INC.
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N. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$118,241 and \$127,592 for fiscal 2009 and 2008, 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.

O. ENDOWMENT

Adult Homes' endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and beneficial interests in perpetual trusts held by others. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(2,729)	\$38,497	\$246,836	\$282,604
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>-</u>	<u>662,504</u>	<u>662,504</u>
Total funds	<u>\$(2,729)</u>	<u>\$38,497</u>	<u>\$909,340</u>	<u>\$945,108</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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O. ENDOWMENT - Continued

Changes in Endowment Net Assets for the Year Ended October 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, October 31, 2008, as originally reported	\$ -	\$ -	\$ 784,989	\$ 784,989
Net asset reclassification pursuant to FSP No. 117-1	<u>(5,457)</u>	<u>19,292</u>	<u>(13,835)</u>	<u>-</u>
Endowment net assets, October 31, 2008, after reclassification	(5,457)	19,292	771,154	784,989
Investment return:				
Investment income	-	28,285	-	28,285
Net appreciation (realized and unrealized)	<u>2,728</u>	<u>19,205</u>	<u>34,909</u>	<u>56,842</u>
Total investment return	<u>2,728</u>	<u>47,490</u>	<u>34,909</u>	<u>85,127</u>
Contributions	<u>-</u>	<u>-</u>	<u>103,277</u>	<u>103,277</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(28,285)</u>	<u>-</u>	<u>(28,285)</u>
Endowment net assets, October 31, 2009	<u>\$(2,729)</u>	<u>\$ 38,497</u>	<u>\$ 909,340</u>	<u>\$ 945,108</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the applicable state law requires Adult Homes to retain as a fund of perpetual duration. There was one fund with such a deficiency totaling \$(2,729) at October 31, 2009.

Return Objectives and Risk Parameters

Adult Homes has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Adult Homes must hold in perpetuity or for a donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected market and comparative indices while assuming a moderate level of investment risk. Actual returns will vary in any given year.

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

O. ENDOWMENT - Continued

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Adult Homes relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Adult Homes targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Adult Homes has no formal spending policy. Annual appropriations for expenditure are made at the discretion of the Board of Directors when determining the annual budget. In determining this amount, Adult Homes considers the long-term expected return on its endowment. Adult Homes' objective is to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

P. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on Adult Homes' assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at October 31, 2009 for the assets measured at fair value on a recurring basis under FASB Codification 820-10:

	Assets Measured at <u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$1,222,152	\$1,152,437	\$69,715	\$ -
Beneficial interests in trusts held by others	749,423	-	749,423	-

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

P. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents

Cash and cash equivalents are reflected at carrying value, which is considered their fair value.

Patient Receivables, Accounts and Notes Receivable

Patient receivables, accounts and notes receivable consist primarily of short-term receivables from Medicaid, residents and Deer Lake Retirement Village. The notes receivable are not readily marketable. Adult Homes has estimated fair value to be their carrying value.

Investments and Beneficial Interests in Trusts Held by Others

The fair value of investments and beneficial interests in trusts held by others, as disclosed in Notes B and L, respectively, has been calculated based on quoted market prices, where available, and Level 3 inputs.

Accounts Payable, Accrued Liabilities and Deferred Revenue

The carrying value of accounts payable, accrued liabilities and deferred revenue approximates fair value due to the short-term nature of the obligations.

Notes Payable

For debt instruments with variable interest rates, the fair value approximates the carrying value. For fixed rate debt, the carrying value approximates fair value, as interest approximates market rates.

Q. FUND RAISING AND ADVERTISING COSTS

Adult Homes expenses the cost of fund raising and advertising as incurred. These costs for the years ended October 31, 2009 and 2008 were \$53,493 and \$71,832, respectively.

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

R. 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.

S. SUBSEQUENT EVENTS

Adult Homes has evaluated subsequent events through December 7, 2009, and has determined that there are no subsequent events that require disclosure.

SUPPLEMENTARY INFORMATION

TENNESSEE BAPTIST ADULT HOMES, INC.
COMBINING SCHEDULE - STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2009

<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	\$ 97,715	\$ 167,549	\$ -	\$ 265,264
Cash escrow - Williams Ferry Pointe	-	16,115	-	16,115
Investments held by Tennessee Baptist Foundation	1,222,152	-	-	1,222,152
Receivables:				
Patient receivables	-	223,552	-	223,552
Accounts and notes receivable - other	<u>187,118</u>	<u>-</u>	<u>-</u>	<u>187,118</u>
Total receivables	<u>187,118</u>	<u>223,552</u>	<u>-</u>	<u>410,670</u>
Inventories	-	13,970	-	13,970
Prepaid expenses	39,481	21,952	-	61,433
Land, buildings and equipment at cost, net	1,858,951	2,814,767	-	4,673,718
Beneficial interests in trusts held by others	749,423	-	-	749,423
Other assets	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
Total assets	<u>\$4,154,840</u>	<u>\$3,257,935</u>	<u>\$ -</u>	<u>\$7,412,775</u>

<u>LIABILITIES AND NET ASSETS</u>				
Accounts payable and accrued liabilities	\$ 64,665	\$ 205,469	\$ -	\$ 270,134
Deferred revenue	4,495	25,569	-	30,064
Postretirement benefit liability	140,380	-	-	140,380
Notes payable	<u>125,000</u>	<u>412,619</u>	<u>-</u>	<u>537,619</u>
Total liabilities	<u>334,540</u>	<u>643,657</u>	<u>-</u>	<u>978,197</u>
Net assets:				
Unrestricted				
Board designated	937,084	-	-	937,084
Undesignated	<u>1,841,505</u>	<u>2,614,278</u>	<u>-</u>	<u>4,455,783</u>
	2,778,589	2,614,278	-	5,392,867
Temporarily restricted	132,371	-	-	132,371
Permanently restricted	<u>909,340</u>	<u>-</u>	<u>-</u>	<u>909,340</u>
Total net assets	<u>3,820,300</u>	<u>2,614,278</u>	<u>-</u>	<u>6,434,578</u>
Total liabilities and net assets	<u>\$4,154,840</u>	<u>\$3,257,935</u>	<u>\$ -</u>	<u>\$7,412,775</u>

See accompanying independent auditors' report.

TENNESSEE BAPTIST ADULT HOMES, INC.
COMBINING SCHEDULE - STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2009

	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	\$ -	\$5,979,893	\$ -	\$5,979,893
Allocations from the cooperative program of Tennessee Baptist Convention	330,564	-	-	330,564
Contributions and gifts	1,303,140	11,075	-	1,314,215
Investment income and gains	109,809	-	-	109,809
Management fees - Deer Lake Retirement Village	4,860	-	-	4,860
Rental income - Baptist Village of Johnson City	15,961	-	-	15,961
Stoneway revenue	227,060	-	-	227,060
Rainbow revenue	120,786	-	-	120,786
Knoxville revenue	229,242	-	-	229,242
Lake Park revenue	142,868	-	-	142,868
Daycare revenue	-	172,698	-	172,698
Other operating revenue	<u>5,000</u>	<u>30,523</u>	<u>-</u>	<u>35,523</u>
Total support and revenue	<u>2,489,290</u>	<u>6,194,189</u>	<u>-</u>	<u>8,683,479</u>
Expenses:				
Program Services:				
Stoneway expense	325,826	-	-	325,826
Rainbow expense	248,359	-	-	248,359
Knoxville expense	284,129	-	-	284,129
Special Friend expense	136,688	-	-	136,688
Lake Park expense	157,396	-	-	157,396
Nursing services	-	3,607,004	-	3,607,004
Housekeeping services	-	324,623	-	324,623
Dietary services	-	703,731	-	703,731
Maintenance services	-	302,828	-	302,828

TENNESSEE BAPTIST ADULT HOMES, INC.
 COMBINING SCHEDULE - STATEMENT OF ACTIVITIES - Continued
 YEAR ENDED OCTOBER 31, 2009

	Tennessee Baptist Adult Homes	Baptist Health Care Center (A Division) of TBAH)	Eliminations	Total
Special services	-	327,354	-	327,354
Depreciation	110,310	114,950	-	225,260
Interest	<u>-</u>	<u>26,173</u>	<u>-</u>	<u>26,173</u>
Total program services	1,262,708	5,406,663	-	6,669,371
General and administrative	<u>490,197</u>	<u>626,500</u>	<u>-</u>	<u>1,116,697</u>
Total expenses	<u>1,752,905</u>	<u>6,033,163</u>	<u>-</u>	<u>7,786,068</u>
Change in net assets	736,385	161,026	-	897,411
Net assets at beginning of year	<u>3,083,915</u>	<u>2,453,252</u>	<u>-</u>	<u>5,537,167</u>
Net assets at end of year	<u>\$ 3,820,300</u>	<u>\$2,614,278</u>	<u>\$ -</u>	<u>\$6,434,578</u>

See accompanying independent auditors' report.