

**TENNESSEE BAPTIST
ADULT HOMES, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

OCTOBER 31, 2018

TENNESSEE BAPTIST ADULT HOMES, INC.

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of Tennessee Baptist Adult Homes, Inc. ("Adult Homes"), which comprise the statement of financial position as of October 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 24 - 25 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Adult Homes' 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nashville, Tennessee
December 13, 2018

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2018
(with comparative totals for 2017)

<u>ASSETS</u>		
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 255,996	\$ 108,759
Cash escrow - Williams Ferry Pointe (Note E)	47,678	62,519
Investments held by Tennessee Baptist Foundation (Note B)	571,110	576,272
Receivables:		
Related party receivables	30,353	30,353
Accounts and notes receivable - other	225,611	146,897
Total receivables, no allowance considered necessary	<u>255,964</u>	<u>177,250</u>
Prepaid expenses	12,852	12,877
Land, buildings and equipment, at cost, net (Notes C and D)	2,979,656	3,046,110
Completed homes available for sale (Note C)	1,638,396	979,600
Beneficial interests in trusts held by others (Note L)	1,107,931	1,124,164
Assets of continuing operations	<u>6,869,583</u>	<u>6,087,551</u>
Assets of discontinued segment	<u>-</u>	<u>1,707,905</u>
Total assets	<u><u>\$ 6,869,583</u></u>	<u><u>\$ 7,795,456</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 142,763	\$ 69,039
Deferred revenue (Note E)	169,495	196,758
Other liabilities	47,750	53,750
Postretirement benefit liability (Note H)	349,601	371,260
Notes payable (Note D)	-	545,000
Liabilities of continuing operations	<u>709,609</u>	<u>1,235,807</u>
Liabilities of discontinued segment	<u>-</u>	<u>1,784,874</u>
Total liabilities	<u>709,609</u>	<u>3,020,681</u>
Net assets:		
Unrestricted:		
Board designated	451,395	307,645
Undesignated (Note O)	4,278,949	3,008,212
	<u>4,730,344</u>	<u>3,315,857</u>
Temporarily restricted (Notes M and O)	135,355	164,632
Permanently restricted (Notes M and O)	1,294,275	1,294,286
Total net assets	<u>6,159,974</u>	<u>4,774,775</u>
Total liabilities and net assets	<u><u>\$ 6,869,583</u></u>	<u><u>\$ 7,795,456</u></u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2018
(with comparative totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted
Support, revenue and gains:			
Allocations from the cooperative program of			
Tennessee Baptist Mission Board	\$ 287,288	\$ -	\$ -
Contributions and gifts	217,160	133,724	-
Investment income and gains (losses)	(7,733)	33,867	(11)
Management fees - Deer Lake			
Retirement Village	9,000	-	-
Rental income	35,915	-	-
Stoneway revenue	274,777	-	-
Rainbow revenue	211,270	-	-
Knoxville revenue	406,954	-	-
Lake Park revenue	194,707	-	-
Special Friends revenue	86,275	-	-
Williams Ferry Pointe revenue	21,287	-	-
Net assets released from restrictions (Note N)	196,868	(196,868)	-
Total support, revenue and gains	<u>1,933,768</u>	<u>(29,277)</u>	<u>(11)</u>
Expenses and losses:			
Program services:			
Stoneway expense	404,800	-	-
Rainbow expense	381,714	-	-
Knoxville expense	419,481	-	-
Lake Park expense	246,578	-	-
Special Friends expense	198,084	-	-
Williams Ferry Pointe expense	31,968	-	-
Depreciation	108,293	-	-
Total program services	<u>1,790,918</u>	<u>-</u>	<u>-</u>
General and administrative	<u>533,971</u>	<u>-</u>	<u>-</u>
Total expenses and losses	<u>2,324,889</u>	<u>-</u>	<u>-</u>
Change in net assets from continuing operations	<u>(391,121)</u>	<u>(29,277)</u>	<u>(11)</u>
Discontinued operations:			
Loss from operations of discontinued operations	(82,157)	-	-
Gain on sale of discontinued operations	<u>1,887,765</u>	<u>-</u>	<u>-</u>
Change in net assets from discontinued operations	<u>1,805,608</u>	<u>-</u>	<u>-</u>
Change in net assets	1,414,487	(29,277)	(11)
Net assets at beginning of year	<u>3,315,857</u>	<u>164,632</u>	<u>1,294,286</u>
Net assets at end of year	<u>\$ 4,730,344</u>	<u>\$ 135,355</u>	<u>\$ 1,294,275</u>

Total	
2018	2017
\$ 287,288	\$ 281,017
350,884	288,648
26,123	145,846
9,000	2,775
35,915	25,789
274,777	276,780
211,270	209,741
406,954	405,592
194,707	197,184
86,275	82,590
21,287	28,554
-	-
1,904,480	1,944,516
404,800	402,589
381,714	375,397
419,481	425,017
246,578	268,687
198,084	174,214
31,968	17,090
108,293	103,066
1,790,918	1,766,060
533,971	554,847
2,324,889	2,320,907
(420,409)	(376,391)
(82,157)	(140,775)
1,887,765	-
1,805,608	(140,775)
1,385,199	(517,166)
4,774,775	5,291,941
\$ 6,159,974	\$ 4,774,775

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2018
(with comparative totals for 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 1,385,199	\$ (517,166)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	108,293	103,066
Gain on sale of discontinued segment	(1,887,765)	-
Net gains on investments and beneficial interests in trusts	(26,123)	(145,846)
Changes in operating assets and liabilities:		
Decrease in cash escrow	14,841	52,831
Increase in receivables	146,140	(74,180)
Decrease in prepaid expenses	25	4,338
Increase in accounts payable and accrued liabilities	73,724	13,754
Decrease in deferred revenue	(27,263)	(50,500)
(Decrease) increase in other liabilities	(6,000)	53,750
(Decrease) increase in accrued post-retirement benefit	(21,659)	44,744
Net change in operating activities from discontinued segment	100,759	(46,677)
Net cash used in operating activities	<u>(139,829)</u>	<u>(561,886)</u>
Cash flows from investing activities:		
Net disposals (purchases) of property and equipment	(41,839)	88,425
Net sales of investments	47,518	53,091
Purchase of completed homes available for sale	(658,796)	-
Net proceeds from sale of discontinued segment	1,087,397	-
Net change in investing activities from discontinued segment	(1,273)	(13,313)
Net cash provided by investing activities	<u>433,007</u>	<u>128,203</u>
Cash flows from financing activities:		
Net change in lines of credit	(145,000)	75,000
Proceeds from issuance of notes payable	-	400,000
Net change in financing activities from discontinued segment	(941)	(23,728)
Net cash (used in) provided by financing activities	<u>(145,941)</u>	<u>451,272</u>
Net change in cash	147,237	17,589
Cash and cash equivalents at beginning of year	<u>108,759</u>	<u>91,170</u>
Cash and cash equivalents at end of year	<u>\$ 255,996</u>	<u>\$ 108,759</u>
Additional information:		
Interest paid	<u>\$ 18,892</u>	<u>\$ 98,806</u>
Debt repaid from proceeds from sale of discontinued operations	<u>\$ 400,000</u>	<u>\$ -</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2018
(with comparative totals for 2017)

	Program Services	General and Administrative	Total	
			2018	2017
Salaries	\$ 768,666	\$ 243,446	\$ 1,012,112	\$ 943,911
Employee benefits	277,337	75,644	352,981	359,390
Total salaries and related benefits	1,046,003	319,090	1,365,093	1,303,301
Advertising, marketing and recruitment	10,669	5,285	15,954	16,177
Bed taxes and licenses	1,990	-	1,990	1,990
Depreciation	108,293	-	108,293	103,066
Food supplies	126,051	-	126,051	124,296
Insurance	26,443	18,302	44,745	36,025
Interest	-	12,555	12,555	105,143
Maintenance and repairs	43,898	10,885	54,783	48,915
Memberships, due and subscriptions	1,021	2,140	3,161	4,013
Miscellaneous	112,092	27,327	139,419	169,808
Professional and consulting services	-	37,757	37,757	19,150
Property taxes	-	23,245	23,245	24,359
Purchased services	12,356	17,035	29,391	31,244
Resident activities	11,150	-	11,150	15,120
Resident allowances	32,639	-	32,639	32,117
Special Friends camps	86,587	-	86,587	84,056
Supplies	15,447	5,698	21,145	16,943
Training	164	264	428	1,972
Travel and auto	37,857	11,717	49,574	49,036
Utilities	118,258	42,671	160,929	134,176
Total	\$ 1,790,918	\$ 533,971	\$ 2,324,889	\$ 2,320,907
Percentages	<u>77.03%</u>	<u>22.97%</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, 2018
(with comparative total for 2017)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Tennessee Baptist Adult Homes, Inc. ("Adult Homes"), operates under the auspices of the Tennessee Baptist Mission Board. 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 Mission Board, consist of operating 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, 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 construction stage of an adult independent living community, Williams Ferry Pointe, located in Lenoir City. Adult Homes also operated an intermediate nursing care facility, Baptist Health Care Center ("BHCC"), in Lenoir City, Tennessee through December 31, 2017. Effective January 1, 2018, Adult Homes sold BHCC and, accordingly, activity for BHCC has been presented as discontinued operations in the accompanying financial statements (See Note G).

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, 2018
(with comparative total for 2017)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Financial Totals and Reclassifications

The financial information shown for fiscal year 2017 in the accompanying statement of financial position, and statements of activities, cash flows and functional expenses is included to provide a basis for comparison with fiscal year 2018. Certain fiscal year 2017 amounts have been reclassified to conform to the financial statement presentation in fiscal year 2018, including amounts reclassified due to reporting of activity for BHCC under ASC 205-20 *Discontinued Operations*.

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.

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 \$1,000.

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

Impairment of Long-Lived Assets

Adult Homes evaluates the recoverability of its long-lived assets for possible impairment when events or circumstances indicate that the carrying amounts may not be recoverable. Long-lived assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are independent of the cash flows of other groups of assets. If it is determined that the carrying amounts of such long-lived assets are not recoverable, the assets are written down to their fair value. As of October 31, 2018 and 2017, in the opinion of management, there has been no such impairment.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018
(with comparative total for 2017)

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.

Adult Homes accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for Adult Homes include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, Adult Homes has determined that such tax positions do not result in an uncertainty requiring recognition.

Estimates

Judgment and estimation are exercised by management in certain areas of the preparation of financial statements. The more significant areas include the collectability of receivables, the recovery period for buildings and equipment, the determination of the postretirement benefit liability and fair value of completed homes available for sale. 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

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, 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, 2018
(with comparative total for 2017)

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.

Significant Accounting Policies of BHCC

The following significant accounting policies were specific to BHCC and were used by Adult Homes in accounting for the activity and balances of BHCC, as described in Note G.

Inventories

Inventories consisted principally of dietary items and general supplies of BHCC and were priced at lower of cost (first-in, first-out method) or market.

Net Patient Service Revenue

Net patient service revenue were reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered. BHCC participated in the Medicaid program.

The Medicaid program reimbursed BHCC for the cost of intermediate care services rendered to Medicaid beneficiaries at a prospective rate which was based on the lower of the reimbursable cost of services rendered to intermediate care beneficiaries or a reimbursement cap established by Medicaid. The reimbursement cap was expressed as a per diem amount.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018
(with comparative total for 2017)

B. INVESTMENTS HELD BY THE TENNESSEE BAPTIST FOUNDATION

Investments at October 31 are summarized as follows:

	<u>Total 2018</u>		<u>Total 2017</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual funds	\$429,758	\$342,603	\$430,657	\$339,482
Fixed income	<u>141,352</u>	<u>145,294</u>	<u>145,615</u>	<u>146,794</u>
	<u>\$571,110</u>	<u>\$487,897</u>	<u>\$576,272</u>	<u>\$486,276</u>

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

	<u>Total</u>	
	<u>2018</u>	<u>2017</u>
	<u>Market</u>	<u>Market</u>
Unrestricted	\$249,411	\$241,518
Temporarily restricted	74,863	87,918
Permanently restricted	<u>246,836</u>	<u>246,836</u>
	<u>\$571,110</u>	<u>\$576,272</u>

Income and gains on investments owned by Adult Homes and beneficial interests in trusts held by others amounted to \$26,123 and \$145,846 for the years ended October 31, 2018 and 2017, respectively. This income and gains represent a yield of 1.55% and 8.14% based on the average market of such investments and beneficial interests in trusts held by others for fiscal year 2018 and 2017, respectively.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018
(with comparative total for 2017)

C. LAND, BUILDINGS AND EQUIPMENT

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

	October 31,	
	2018	2017
Land and improvements	\$ 596,099	\$ 596,099
Buildings	2,439,094	2,439,094
Building improvements	332,762	322,267
Leasehold improvements	2,185	2,185
Furniture, equipment and automotive equipment	455,103	428,802
Construction in progress	<u>1,623,822</u>	<u>1,623,822</u>
	5,449,065	5,412,269
Less accumulated depreciation	<u>(2,469,409)</u>	<u>(2,366,159)</u>
	<u>\$ 2,979,656</u>	<u>\$ 3,046,110</u>

Construction in progress is composed of certain unallocated infrastructure and engineering costs for the Williams Ferry Pointe adult independent living project. These remaining costs will be allocated to future home construction when completed.

At October 31, 2018, four single homes, three units of a quad-plex, and three duplex units are held for sale and are classified on the statement of financial position as completed homes available for sale. In December 2018, Adult Homes closed on the sale of one of the duplex units.

D. NOTES PAYABLE

Adult Homes had a \$400,000 note payable to TBF, entered into in fiscal year 2017, bearing interest at 4.0%. Interest was payable quarterly and full payment was due on demand. The note was collateralized by a deed of trust on certain property. The balance of the note payable at October 31, 2017 was \$400,000. The note was repaid in full in fiscal year 2018 from the proceeds of the sale of BHCC, as described in Note G.

Adult Homes had a note payable to a bank under a \$200,000 revolving line-of-credit. Interest is payable monthly at a variable interest rate (6.25% and 5.25% at October 31, 2018 and 2017, respectively) and is due on demand. The balance of the line-of-credit at October 31, 2018 and 2017 was \$-0- and \$145,000. The line-of-credit is unsecured.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018
(with comparative total for 2017)

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, which qualifies as a continuing-care retirement 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, 2018 and 2017, Adult Homes reported as deferred revenue membership fees in the amount of \$2,000 and \$8,000, respectively.

Lease agreement fees represent a one-time fee made by each future homeowner for the lease of land on which each home will be constructed. The fee is generally earned by Adult Homes over a four-year period, except in the case of a lifetime lease. 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, 2018 and 2017, Adult Homes reported as deferred revenue lease agreement fees in the amount of \$12,000 and \$34,857, respectively. The fees are in connection with a lifetime lease and are amortized over the life expectancy of the lessee.

Deferred revenue also includes a deposit totaling \$153,900 made by the purchaser of a home for which the sale had not closed as of October 31, 2018 or 2017. The sale of this home was finalized and closed in December 2018 (see Note C).

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 \$750 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, 2018
(with comparative total for 2017)

G. SALE OF BAPTIST HEALTH CARE CENTER

Effective January 1, 2018, Adult Homes sold its intermediate nursing care facility, Baptist Health Care Center (“BHCC”) to Lenoir City Real Estate Investors, LLC. Adult Homes does not have any continuing interest or other influence over BHCC following the sale, and, accordingly, the results of operations of BHCC have been separately presented as discontinued operations. Similarly, the assets and liabilities of BHCC have been reclassified and reported as discontinued operations as of October 31, 2017 and for the year then ended.

The sales price totaled \$3,450,000 and was offset by \$1,957,383 in repayment of outstanding debt, \$135,961 in payment of certain accrued expenses, \$19,259 in closing costs, and \$250,000 to be held in escrow for two years. Accordingly, net cash proceeds totaled \$1,087,397. Upon completion of the sale, Adult Homes recorded a gain of \$1,887,765.

Adult Homes used a portion of its net proceeds from the sale to purchase four homes for Williams Ferry Pointe for approximately \$660,000.

The operating results of BHCC, net of intercompany items, classified as discontinued operations in fiscal year 2018 and 2017, are summarized as follows:

	<u>2018</u>	<u>2017</u>
Patient service revenue, net	\$ 695,860	\$ 4,354,647
Contributions and other revenue	<u>5,953</u>	<u>56,101</u>
Total revenue, support, and gains	<u>701,813</u>	<u>4,410,748</u>
Program services	653,389	3,770,296
General and administrative services	<u>130,581</u>	<u>781,227</u>
Total expenses and losses	<u>783,970</u>	<u>4,551,523</u>
Loss from operations of discontinued operations	(82,157)	(140,775)
Gain on sale of discontinued operations	<u>1,887,765</u>	<u>-</u>
Change in net assets from discontinued operations	<u>\$ 1,805,608</u>	<u>\$ (140,775)</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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G. SALE OF BAPTIST HEALTH CARE CENTER - Continued

The following are the major classes of assets and liabilities related to the discontinued operations, net of intercompany items, as of October 31, 2017:

	<u>2017</u>
Cash and cash equivalents	\$ 290,946
Patient receivables	226,290
Inventories, prepaid expenses, and other assets	14,365
Land, buildings and equipment, at cost, net	<u>1,176,304</u>
 Total assets of discontinued segment	 <u>\$1,707,905</u>
 Accounts payable and accrued liabilities	 \$ 235,140
Notes payable	<u>1,549,734</u>
 Total liabilities of discontinued segment	 <u>\$1,784,874</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
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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>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 371,260	\$ 326,516
Net periodic postretirement benefit cost	18,223	47,006
Other actuarial changes	(31,535)	-
Actual benefit disbursements	<u>(8,347)</u>	<u>(2,262)</u>
Benefit obligation at the end of year	<u>\$ 349,601</u>	<u>\$ 371,260</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	8,347	2,262
Actual benefit disbursements	<u>(8,347)</u>	<u>(2,262)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$349,601</u>	<u>\$371,260</u>
Net postretirement benefit liability recognized in statements of financial position	<u>\$349,601</u>	<u>\$371,260</u>

The net periodic postretirement benefit cost recognized during the years ended October 31, 2018 and 2017 was \$18,223 and \$47,006, 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 7% and future compensation levels of 3% for fiscal year 2018 and 2017. In addition, assumed discount rates were 4% for fiscal year 2018 and 5% for fiscal year 2017.

At October 31, 2018 and 2017, Adult Homes' assets with a fair value totaling \$79,555 and \$77,702, respectively have been designated to fund the obligation.

TENNESSEE BAPTIST ADULT HOMES, INC.
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I. RETIREMENT PLAN

Adult Homes participates 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. Pension expense for the years ended October 31, 2018 and 2017, was \$50,041 and \$40,339 respectively.

J. RELATED PARTY TRANSACTIONS

Adult Homes occupies office space in the Tennessee Baptist Mission Board building in Franklin, Tennessee. Adult Homes pays the Mission Board an annual use charge for the facilities, which amounted to \$40,435 and \$25,822 for fiscal 2018 and 2017, 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, 2018 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 \$1,107,931 and \$1,124,164 at October 31, 2018 and 2017, 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, 2018 and 2017 are available for program services. Permanently restricted net assets at October 31, 2018 and 2017 consist of endowment funds and Adult Homes' beneficial interests in perpetual trusts held by others.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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N. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$196,868 and \$181,242, for fiscal 2018 and 2017, 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:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2018:</u>				
Donor-restricted endowment funds	\$29,939	\$58,288	\$ 246,836	\$ 335,063
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>-</u>	<u>1,047,439</u>	<u>1,047,439</u>
Total funds	<u>\$29,939</u>	<u>\$58,288</u>	<u>\$1,294,275</u>	<u>\$1,382,502</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2017:</u>				
Donor-restricted endowment funds	\$27,605	\$72,028	\$ 246,836	\$ 346,469
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>-</u>	<u>1,047,450</u>	<u>1,047,450</u>
Total funds	<u>\$27,605</u>	<u>\$72,028</u>	<u>\$1,294,286</u>	<u>\$1,393,919</u>

Changes in Endowment Net Assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, November 1, 2016	\$ 17,943	\$ 77,362	\$ 1,222,866	\$ 1,318,171
Investment return:				
Investment income	792	54,524	-	55,316
Net appreciation (depreciation) (realized and unrealized)	<u>9,006</u>	<u>(7,209)</u>	<u>71,420</u>	<u>73,217</u>
Total investment return	<u>9,798</u>	<u>47,315</u>	<u>71,420</u>	<u>128,533</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>(136)</u>	<u>(52,649)</u>	<u>-</u>	<u>(52,785)</u>
Endowment net assets, October 31, 2017	27,605	72,028	1,294,286	1,393,919
Investment return:				
Investment income	1,018	46,371	-	47,389
Net appreciation (depreciation) (realized and unrealized)	<u>1,485</u>	<u>(13,189)</u>	<u>(11)</u>	<u>(11,715)</u>
Total investment return	<u>2,503</u>	<u>33,182</u>	<u>(11)</u>	<u>35,674</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>(169)</u>	<u>(46,922)</u>	<u>-</u>	<u>(47,091)</u>
Endowment net assets, October 31, 2018	<u>\$ 29,939</u>	<u>\$ 58,288</u>	<u>\$ 1,294,275</u>	<u>\$ 1,382,502</u>

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

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 were no funds with deficiencies at October 31, 2018.

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.

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.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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(with comparative total for 2017)

P. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair values 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. Adult Homes evaluates fair value measurement inputs annually at October 31. The following table summarizes fair value disclosures and measurements at October 31, 2018 and 2017:

	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>
<u>2018:</u>				
Investments:				
Mutual funds	\$ 429,758	\$429,758	\$ -	\$ -
Fixed income	<u>141,352</u>	<u>141,352</u>	<u>-</u>	<u>-</u>
Total investments	571,110	571,110	-	-
Beneficial interests in trusts held by others	\$1,107,931	\$ -	\$1,107,931	\$ -
<u>2017:</u>				
Investments:				
Mutual funds	\$ 430,657	\$430,657	\$ -	\$ -
Fixed income	<u>145,615</u>	<u>145,615</u>	<u>-</u>	<u>-</u>
Total investments	576,272	576,272	-	-
Beneficial interests in trusts held by others	\$1,124,164	\$ -	\$1,124,164	\$ -

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.

Accounts and Notes Receivable

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

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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(with comparative total for 2017)

P. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

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 2 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, 2018 and 2017 were \$18,651 and \$19,068, respectively.

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 13, 2018, the date the financial statements were available to be issued, and have determined that, except as discussed in Notes C and E, there are no subsequent events that required disclosure.

SUPPLEMENTARY INFORMATION

TENNESSEE BAPTIST ADULT HOMES, INC.
COMBINING SCHEDULE - STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2018

	<u>ASSETS</u>			
	Tennessee Baptist Adult Homes	Williams Ferry Pointe	Eliminations	Total
Cash and cash equivalents	\$ 230,189	\$ 25,807	\$ -	\$ 255,996
Cash escrow - Williams Ferry Pointe	-	47,678	-	47,678
Investments held by Tennessee Baptist Foundation	571,110	-	-	571,110
Receivables:				
Related party receivables	30,353	-	-	30,353
Accounts and notes receivable - other	575,611	-	(350,000)	225,611
Total receivables	<u>605,964</u>	<u>-</u>	<u>(350,000)</u>	<u>255,964</u>
Prepaid expenses	12,852	-	-	12,852
Land, buildings and equipment, at cost, net	1,136,849	1,842,807	-	2,979,656
Completed homes available for sale	319,166	1,319,230	-	1,638,396
Beneficial interests in trusts held by others	<u>1,107,931</u>	<u>-</u>	<u>-</u>	<u>1,107,931</u>
Total assets	<u>\$ 3,984,061</u>	<u>\$ 3,235,522</u>	<u>\$ (350,000)</u>	<u>\$ 6,869,583</u>
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 56,408	\$ 436,355	\$ (350,000)	\$ 142,763
Deferred revenue	1,600	167,895	-	169,495
Other liabilities	-	47,750	-	47,750
Postretirement benefit liability	349,601	-	-	349,601
Notes payable	-	-	-	-
Total liabilities	<u>407,609</u>	<u>652,000</u>	<u>(350,000)</u>	<u>709,609</u>
Net assets:				
Unrestricted:				
Board designated	451,395	-	-	451,395
Undesignated	1,695,427	2,583,522	-	4,278,949
	<u>2,146,822</u>	<u>2,583,522</u>	<u>-</u>	<u>4,730,344</u>
Temporarily restricted	135,355	-	-	135,355
Permanently restricted	1,294,275	-	-	1,294,275
Total net assets	<u>3,576,452</u>	<u>2,583,522</u>	<u>-</u>	<u>6,159,974</u>
Total liabilities and net assets	<u>\$ 3,984,061</u>	<u>\$ 3,235,522</u>	<u>\$ (350,000)</u>	<u>\$ 6,869,583</u>

See accompanying independent auditor's report.

TENNESSEE BAPTIST ADULT HOMES, INC.
COMBINING SCHEDULE - STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2018

	Tennessee Baptist Adult Home	Williams Ferry Pointe	Baptist Health Care Center (A Division of TBAH)	Eliminations	Total
Support, revenue and gains:					
Allocations from the cooperative program of					
Tennessee Baptist Mission Board	\$ 287,288	\$ -	\$ -	\$ -	\$ 287,288
Contributions and gifts	350,884	-	-	-	350,884
Investment income and gains	26,123	-	-	-	26,123
Management fees - Deer Lake					
Retirement Village	9,000	-	-	-	9,000
Rental income	35,915	-	-	-	35,915
Stoneway revenue	274,777	-	-	-	274,777
Rainbow revenue	211,270	-	-	-	211,270
Knoxville revenue	406,954	-	-	-	406,954
Lake Park revenue	194,707	-	-	-	194,707
Special Friends revenue	86,275	-	-	-	86,275
Williams Ferry Pointe revenue	-	21,287	-	-	21,287
Other operating revenue	98	2,667,107	-	(2,667,205)	-
Total support, revenue and gains	<u>1,883,291</u>	<u>2,688,394</u>	<u>-</u>	<u>(2,667,205)</u>	<u>1,904,480</u>
Expenses and losses:					
Program services:					
Stoneway expense	404,800	-	-	-	404,800
Rainbow expense	381,714	-	-	-	381,714
Knoxville expense	419,481	-	-	-	419,481
Lake Park expense	246,578	-	-	-	246,578
Special Friend expense	198,084	-	-	-	198,084
Williams Ferry Pointe expense	-	31,968	-	-	31,968
Depreciation	102,700	5,593	-	-	108,293
Total program services	<u>1,753,357</u>	<u>37,561</u>	<u>-</u>	<u>-</u>	<u>1,790,918</u>
General and administrative	456,660	77,311	-	-	533,971
Transfers	10,000	(10,000)	-	-	-
Total expenses and losses	<u>2,220,017</u>	<u>104,872</u>	<u>-</u>	<u>-</u>	<u>2,324,889</u>
Change in net assets from continuing operations	<u>(336,726)</u>	<u>2,583,522</u>	<u>-</u>	<u>(2,667,205)</u>	<u>(420,409)</u>
Discontinued operations:					
Loss from operations of discontinued operations	-	-	(1,926,882)	1,844,725	(82,157)
Gain on sale of discontinued operations	889,771	-	175,514	822,480	1,887,765
Change in net assets from discontinued operations	<u>889,771</u>	<u>-</u>	<u>(1,751,368)</u>	<u>2,667,205</u>	<u>1,805,608</u>
Change in net assets	553,045	2,583,522	(1,751,368)	-	1,385,199
Net assets at beginning of year	<u>3,023,407</u>	<u>-</u>	<u>1,751,368</u>	<u>-</u>	<u>4,774,775</u>
Net assets at end of year	<u>\$ 3,576,452</u>	<u>\$2,583,522</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,159,974</u>

See accompanying independent auditor's report.