

**TENNESSEE BAPTIST
ADULT HOMES, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

OCTOBER 31, 2012

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, 2012, 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. The prior year summarized comparative information has been derived from Adult Homes' fiscal 2011 financial statements and, in our report dated December 12, 2011, we expressed an unqualified opinion on those financial statements.

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, 2012, 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 financial statements as a whole. The supplementary information on pages 25 and 26 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.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 11, 2012

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2012
(with comparative totals for 2011)

<u>ASSETS</u>		
	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 720,178	\$ 508,596
Cash escrow - Williams Ferry Pointe (Note E)	34,370	17,303
Investments held by Tennessee Baptist Foundation (Note B)	928,688	1,185,297
Receivables:		
Patient receivables	224,484	270,755
Related party receivables	26,667	26,367
Accounts and notes receivable - other	192,547	145,193
Total receivables, no allowance considered necessary	<u>443,698</u>	<u>442,315</u>
Inventories	27,801	21,036
Prepaid expenses	45,725	46,683
Land, buildings and equipment, at cost, net (Notes C and D)	4,319,072	4,431,694
Completed homes available for sale (Note C)	1,034,700	1,034,700
Beneficial interests in trusts held by others (Note L)	999,712	910,539
Other assets	<u>18,384</u>	<u>24,502</u>
 Total assets	 <u>\$ 8,572,328</u>	 <u>\$ 8,622,665</u>

<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 310,935	\$ 303,100
Deferred revenue (Note E)	60,939	48,127
Postretirement benefit liability (Note H)	236,242	228,430
Notes payable (Note D)	<u>1,338,298</u>	<u>1,602,472</u>
 Total liabilities	 <u>1,946,414</u>	 <u>2,182,129</u>
Net assets:		
Unrestricted:		
Board designated	602,355	885,073
Undesignated (Note O)	4,693,769	4,339,451
	<u>5,296,124</u>	<u>5,224,524</u>
Temporarily restricted (Notes M and O)	115,202	86,743
Permanently restricted (Notes M and O)	1,214,588	1,129,269
Total net assets	<u>6,625,914</u>	<u>6,440,536</u>
 Total liabilities and net assets	 <u>\$ 8,572,328</u>	 <u>\$ 8,622,665</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2012
(with comparative totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted
Support, revenue and gains:			
Patient service revenue, net of allowances and contractual adjustments (Note G)	\$ 6,414,661	\$ -	\$ -
Allocations from the cooperative program of Tennessee Baptist Convention	321,795	-	-
Contributions and gifts	378,617	158,031	77,778
Investment income and gains	116,221	35,220	7,541
Management fees - Deer Lake Retirement Village	4,455	-	-
Rental income	22,269	-	-
Stoneway revenue	275,613	-	-
Rainbow revenue	187,895	-	-
Knoxville revenue	294,832	-	-
Lake Park revenue	149,674	-	-
Daycare revenue	185,463	-	-
Gain on involuntary conversion	46,457	-	-
Other operating revenue	37,796	-	-
Net assets released from restrictions (Note N)	164,792	(164,792)	-
Total support, revenue and gains	8,600,540	28,459	85,319
Expenses and losses:			
Program services:			
Stoneway expense	368,977	-	-
Rainbow expense	320,303	-	-
Knoxville expense	293,514	-	-
Special Friend expense	146,988	-	-
Lake Park expense	168,727	-	-
Nursing services	3,772,967	-	-
Housekeeping services	343,253	-	-
Dietary services	780,592	-	-
Maintenance services	378,714	-	-
Special services	432,491	-	-
Depreciation	235,365	-	-
Total program services	7,241,891	-	-

Total	
2012	2011
\$ 6,414,661	\$ 6,360,477
321,795	325,359
614,426	478,340
158,982	42,988
4,455	4,855
22,269	19,393
275,613	225,529
187,895	130,053
294,832	285,746
149,674	132,867
185,463	213,393
46,457	140,732
37,796	40,991
-	-
8,714,318	8,400,723
368,977	370,198
320,303	295,219
293,514	293,025
146,988	153,305
168,727	163,880
3,772,967	3,780,163
343,253	350,946
780,592	763,502
378,714	338,752
432,491	418,811
235,365	235,566
7,241,891	7,163,367

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF ACTIVITIES - Continued
YEAR ENDED OCTOBER 31, 2012
(with comparative totals for 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General and administrative	\$ 1,282,066	\$ -	\$ -
Loss on disposal of property	<u>4,983</u>	<u>-</u>	<u>-</u>
Total expenses and losses	<u>8,528,940</u>	<u>-</u>	<u>-</u>
Change in net assets	71,600	28,459	85,319
Net assets at beginning of year	<u>5,224,524</u>	<u>86,743</u>	<u>1,129,269</u>
Net assets at end of year	<u><u>\$ 5,296,124</u></u>	<u><u>\$ 115,202</u></u>	<u><u>\$ 1,214,588</u></u>

Total	
2012	2011
\$ 1,282,066	\$ 1,363,398
4,983	53,137
8,528,940	8,579,902
185,378	(179,179)
6,440,536	6,619,715
\$ 6,625,914	\$ 6,440,536

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2012
(with comparative totals for 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 185,378	\$ (179,179)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	241,483	241,684
Loss on disposal of property and equipment	4,983	53,137
Gain on involuntary conversion	(46,457)	(140,732)
Net gains on investments and beneficial interests in trusts	(131,275)	(13,911)
Gifts restricted for long-term investment	(77,778)	(7,873)
(Increase) decrease in cash escrow	(17,067)	15,894
Decrease (increase) in receivables	68,617	(28,247)
Decrease (increase) in prepaid assets and other assets	957	(3,504)
Increase in inventory	(6,765)	(921)
Increase in accounts payable and accrued liabilities	7,835	17,510
Increase in deferred revenue, net	12,812	3,332
Increase in accrued post-retirement benefit	7,812	80,238
Net cash provided by operating activities	<u>250,535</u>	<u>37,428</u>
Cash flows from investing activities:		
Purchases of property and equipment	(127,727)	(577,954)
Proceeds from sale of property and equipment	-	91,763
Insurance proceeds	46,457	150,000
Issuance of notes receivable	(70,000)	-
Net sales (purchases) of investments	<u>376,491</u>	<u>55,306</u>
Net cash provided by (used in) investing activities	<u>225,221</u>	<u>(280,885)</u>
Cash flows from financing activities:		
Gifts restricted for long-term investment	77,778	7,873
Increase in beneficial interests in trusts	(77,778)	(7,873)
Net change in lines of credit	70,000	50,000
Payments on note payable and capital lease obligation	(344,335)	(262,675)
Proceeds from issuance of notes payable	<u>10,161</u>	<u>560,195</u>
Net cash (used in) provided by financing activities	<u>(264,174)</u>	<u>347,520</u>
Net increase in cash	211,582	104,063
Cash and cash equivalents at beginning of year	<u>508,596</u>	<u>404,533</u>
Cash and cash equivalents at end of year	<u>720,178</u>	<u>\$ 508,596</u>
Additional information:		
Interest paid	<u>\$ 96,783</u>	<u>\$ 100,102</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED OCTOBER 31, 2012
(with comparative totals for 2011)

	Program Services	General and Administrative and Losses	Total	
			2012	2011
Salaries	\$ 4,217,529	\$ 544,557	\$ 4,762,086	\$ 4,714,236
Employee benefits	771,453	158,240	929,693	1,029,579
Total salaries and related benefits	4,988,982	702,797	5,691,779	5,743,815
Advertising, marketing and recruitment	3,876	116,890	120,766	120,773
Bed taxes and licenses	236,635	-	236,635	236,471
Depreciation and amortization	235,365	6,118	241,483	241,684
Food supplies	508,673	-	508,673	502,534
Freight	8,441	-	8,441	14,876
Insurance	220,710	27,506	248,216	237,028
Interest	-	90,665	90,665	93,984
Laundry	104,994	-	104,994	101,734
Loss on sale of property	-	4,983	4,983	53,137
Maintenance and repairs	37,924	6,314	44,238	35,983
Memberships, due and subscriptions	855	16,680	17,535	14,266
Miscellaneous	7,254	111,574	118,828	158,918
Professional and consulting services	8,400	2,960	11,360	21,437
Property taxes	-	26,301	26,301	23,333
Purchased services	39,447	69,176	108,623	82,912
Resident activities	13,870	-	13,870	9,972
Resident allowances	20,139	-	20,139	19,601
Special friends camps	71,389	-	71,389	72,713
Supplies	399,252	22,383	421,635	375,501
Training	22,648	315	22,963	28,319
Travel and auto	44,016	40,727	84,743	77,438
Uniforms	3,521	-	3,521	7,490
Utilities	265,500	41,660	307,160	305,983
Total	\$ 7,241,891	\$ 1,287,049	\$ 8,528,940	\$ 8,579,902
Percentages	<u>84.91%</u>	<u>15.09%</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, 2012
(with comparative totals for 2011)

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 construction stage 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, 2012
(with comparative totals for 2011)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Financial Totals

The financial information shown for fiscal year 2011 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 2012.

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, 2012
(with comparative totals for 2011)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2012 and 2011, in the opinion of management, there has been no such impairment.

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 collectibility 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.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012
(with comparative totals for 2011)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered. Adult Homes participates in the Medicaid program.

The Medicaid program reimburses Adult Homes for the cost of intermediate care services rendered to Medicaid beneficiaries at a prospective rate which is 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 is expressed as a per diem amount.

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.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012
(with comparative totals for 2011)

B. INVESTMENTS HELD BY THE TENNESSEE BAPTIST FOUNDATION

Investments at October 31 are summarized as follows:

	<u>Total 2012</u>		<u>Total 2011</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual funds	\$836,975	\$806,987	\$1,109,181	\$1,133,923
Bonds and notes	86,267	74,709	72,055	74,709
Stock	<u>5,446</u>	<u>5,000</u>	<u>4,061</u>	<u>5,000</u>
	<u>\$928,688</u>	<u>\$886,696</u>	<u>\$1,185,297</u>	<u>\$1,213,632</u>

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

	<u>Total</u>	
	<u>2012</u>	<u>2011</u>
	<u>Market</u>	<u>Market</u>
Unrestricted	\$598,610	\$ 879,825
Temporarily restricted	83,242	58,636
Permanently restricted	<u>246,836</u>	<u>246,836</u>
	<u>\$928,688</u>	<u>\$1,185,297</u>

Income and gains on investments owned by Adult Homes and beneficial interests in trusts held by others amounted to \$158,982 and \$42,988 for the years ended October 31, 2012 and 2011, respectively. This income and gains represent a yield of 7.9% and 2.0% based on the average market of such investments and beneficial interests in trusts held by others for fiscal 2012 and 2011, respectively.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012
(with comparative totals for 2011)

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>2012</u>	<u>2011</u>
Land and improvements	\$ 1,187,315	\$ 1,187,315
Buildings	4,908,759	4,908,759
Building improvements	816,513	797,523
Leasehold improvements	2,185	2,185
Furniture, equipment and automotive equipment	1,033,064	1,011,510
Construction in progress	<u>1,269,066</u>	<u>1,258,881</u>
	9,216,902	9,166,173
Less accumulated depreciation	<u>(4,897,830)</u>	<u>(4,734,479)</u>
	<u>\$ 4,319,072</u>	<u>\$ 4,431,694</u>

Fully depreciated assets with a cost of \$1,891,921 were still in use at October 31, 2012.

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, 2012, three single homes and three units of one quad-plex are held for sale. During 2011, one unit of the quad-plex was sold at a loss of \$53,137 to fulfill a previous commitment made to the purchaser.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012
(with comparative totals for 2011)

D. NOTES PAYABLE

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

	<u>2012</u>	<u>2011</u>
Note payable to bank under a \$1,500,000 revolving line-of-credit. Interest is paid monthly at the prime rate plus 1%, but not less than 6.50% and not more than 18.00% (6.50% at October 31, 2012) through August 2015, at which time all outstanding interest and principal is due. The note is collateralized by a deed of trust on certain property.	\$1,148,298	\$1,138,204
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 was due. The note was collateralized by a deed of trust on certain property.	-	309,268
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, 2012 were \$10,000. The line-of-credit is unsecured.	190,000	120,000
Notes payable to a member of management, payable on demand. There is no interest on the note.	<u>-</u>	<u>35,000</u>
Total	<u>\$1,338,298</u>	<u>\$1,602,472</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012
(with comparative totals for 2011)

D. NOTES PAYABLE - Continued

Maturities of the notes payable are as follows:

<u>Year Ending October 31,</u>	<u>Amount</u>
2013	\$ 190,000
2014	-
2015	<u>1,148,298</u>
	<u>\$1,338,298</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, 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, 2012 and 2011, Adult Homes reported as deferred revenue membership fees in the amount of \$8,000 and \$6,000.

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 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, 2012 and 2011, Adult Homes reported as deferred revenue, lease agreement fees in the amount of \$42,000 and \$27,000. The fees are in connection with a lifetime lease and are amortized over the life expectancy of the leasee.

Deferred revenue also includes certain fees totaling \$10,939 and \$15,127 collected from residents of certain facilities and/or Medicaid for services not yet provided as of October 31, 2012 and 2011, respectively.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012
(with comparative totals for 2011)

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>2012</u>	<u>2011</u>
Patient service revenue	\$ 6,889,598	\$ 6,667,339
Less contractual adjustments	<u>(474,937)</u>	<u>(306,862)</u>
	<u>\$ 6,414,661</u>	<u>\$ 6,360,477</u>

Approximately 47% of patient revenue is from Medicaid for the years ended October 31, 2012 and 2011.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012
(with comparative totals for 2011)

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>2012</u>	<u>2011</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 228,430	\$ 148,192
Net periodic postretirement benefit cost	16,869	89,295
Actual benefit disbursements	<u>(9,057)</u>	<u>(9,057)</u>
Benefit obligation at the end of year	<u>\$ 236,242</u>	<u>\$ 228,430</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	9,057	9,057
Actual benefit disbursements	<u>(9,057)</u>	<u>(9,057)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$236,242</u>	<u>\$228,430</u>
Net postretirement benefit liability recognized in statements of financial position	<u>\$236,242</u>	<u>\$228,430</u>

The net periodic postretirement benefit cost recognized during the years ended October 31, 2012 and 2011 was \$16,869 and \$89,295, 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 2012 and 2011, and future compensation levels of 5%. In addition, a discount rate of 5.50% was assumed for fiscal 2012 and 2011.

At October 31, 2012, Adult Homes' assets with a fair value totaling \$55,979 have been designated to fund the obligation.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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(with comparative totals for 2011)

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, 2012 and 2011, was \$75,212 and \$81,482, 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 \$22,295 and \$24,754 for 2012 and 2011, 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, 2012 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 \$999,712 and \$910,539 at October 31, 2012 and 2011, 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, 2012 and 2011 are available for program services. Permanently restricted net assets at October 31, 2012 and 2011 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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(with comparative totals for 2011)

N. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$164,792 and \$124,864, for fiscal 2012 and 2011, 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>2012:</u>				
Donor-restricted endowment funds	\$3,745	\$74,379	\$ 246,836	\$ 324,960
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>-</u>	<u>967,752</u>	<u>967,752</u>
Total funds	<u>\$3,745</u>	<u>\$74,379</u>	<u>\$1,214,588</u>	<u>\$1,292,712</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012
(with comparative totals for 2011)

O. ENDOWMENT - Continued

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2011:</u>				
Donor-restricted endowment funds	\$(750)	\$51,098	\$ 246,836	\$ 297,184
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>-</u>	<u>882,433</u>	<u>882,433</u>
Total funds	<u>\$(750)</u>	<u>\$51,098</u>	<u>\$1,129,269</u>	<u>\$1,179,617</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, 2010	\$(80)	\$ 38,784	\$1,053,831	\$ 1,092,535
Investment return:				
Investment income	458	18,062	-	18,520
Net appreciation (realized and unrealized)	<u>(1,057)</u>	<u>1,186</u>	<u>7,291</u>	<u>7,420</u>
Total investment return	<u>(599)</u>	<u>19,248</u>	<u>7,291</u>	<u>25,940</u>
Contributions	<u>-</u>	<u>-</u>	<u>7,873</u>	<u>7,873</u>
Appropriation of endowment assets for expenditures	(71)	(6,934)	-	(7,005)
Reclassification	<u>-</u>	<u>-</u>	<u>60,274</u>	<u>60,274</u>
Endowment net assets, October 31, 2011	(750)	51,098	1,129,269	1,179,617
Investment return:				
Investment income	502	33,328	-	33,830
Net appreciation (realized and unrealized)	<u>4,067</u>	<u>20,655</u>	<u>7,541</u>	<u>32,263</u>
Total investment return	<u>4,569</u>	<u>53,983</u>	<u>7,541</u>	<u>66,093</u>
Contributions	<u>-</u>	<u>-</u>	<u>77,778</u>	<u>77,778</u>
Appropriation of endowment assets for expenditure	<u>(74)</u>	<u>(30,702)</u>	<u>-</u>	<u>(30,776)</u>
Endowment net assets, October 31, 2012	<u>\$ 3,745</u>	<u>\$ 74,379</u>	<u>\$1,214,588</u>	<u>\$ 1,292,712</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012
(with comparative totals for 2011)

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 was one fund with such a deficiency totaling \$(750) at October 31, 2011.

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
OCTOBER 31, 2012
(with comparative totals for 2011)

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, 2012 and 2011:

	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>2012:</u>				
Investments:				
Mutual funds	\$ 836,975	\$ 836,975	\$ -	\$ -
Bonds and notes	86,267	86,267	-	-
Stocks	<u>5,446</u>	<u>5,446</u>	<u>-</u>	<u>-</u>
Total investments	928,688	928,688	-	-
Beneficial interests in trusts held by others	999,712	-	999,712	-
<u>2011:</u>				
Investments:				
Mutual funds	\$1,109,181	\$1,109,181	\$ -	\$ -
Bonds and notes	72,055	72,055	-	-
Stocks	<u>4,061</u>	<u>4,061</u>	<u>-</u>	<u>-</u>
Total investments	1,185,297	1,185,297	-	-
Beneficial interests in trusts held by others	910,539	-	910,539	-

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.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012
(with comparative totals for 2011)

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.

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, 2012 and 2011 were \$49,450 and \$57,829, 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 11, 2012, the date the financial statements were available to be issued, 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, 2012

<u>ASSETS</u>				
	Tennessee Baptist Adult Homes	Baptist Health Care Center (A Division of TBAH)	Eliminations	Total
Cash and cash equivalents	\$ 51,819	\$ 668,359	\$ -	\$ 720,178
Cash escrow - Williams Ferry Pointe	-	34,370	-	34,370
Investments held by Tennessee Baptist Foundation	928,688	-	-	928,688
Receivables:				
Patient receivables	-	224,484	-	224,484
Related party receivables	320,667	-	(294,000)	26,667
Accounts and notes receivable - other	192,547	-	-	192,547
Total receivables	<u>513,214</u>	<u>224,484</u>	<u>(294,000)</u>	<u>443,698</u>
Inventories	-	27,801	-	27,801
Prepaid expenses	26,459	19,266	-	45,725
Land, buildings and equipment, at cost, net	1,613,284	2,705,788	-	4,319,072
Completed homes available for sale	-	1,034,700	-	1,034,700
Beneficial interests in trusts held by others	999,712	-	-	999,712
Other assets	<u>-</u>	<u>18,384</u>	<u>-</u>	<u>18,384</u>
Total assets	<u>\$ 4,133,176</u>	<u>\$ 4,733,152</u>	<u>\$ (294,000)</u>	<u>\$ 8,572,328</u>
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 36,012	\$ 274,923	\$ -	\$ 310,935
Deferred revenue	1,370	59,569	-	60,939
Postretirement benefit liability	236,242	-	-	236,242
Notes payable	190,000	1,442,298	(294,000)	1,338,298
Total liabilities	<u>463,624</u>	<u>1,776,790</u>	<u>(294,000)</u>	<u>1,946,414</u>
Net assets:				
Unrestricted:				
Board designated	602,355	-	-	602,355
Undesignated	1,737,407	2,956,362	-	4,693,769
	<u>2,339,762</u>	<u>2,956,362</u>	<u>-</u>	<u>5,296,124</u>
Temporarily restricted	115,202	-	-	115,202
Permanently restricted	1,214,588	-	-	1,214,588
Total net assets	<u>3,669,552</u>	<u>2,956,362</u>	<u>-</u>	<u>6,625,914</u>
Total liabilities and net assets	<u>\$ 4,133,176</u>	<u>\$ 4,733,152</u>	<u>\$ (294,000)</u>	<u>\$ 8,572,328</u>

See accompanying independent auditors' report.

TENNESSEE BAPTIST ADULT HOMES, INC.
COMBINING SCHEDULE - STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2012

	Tennessee Baptist Adult Home	Baptist Health Care Center (A Division of TBAH)	Eliminations	Total
Support, revenue and gains:				
Patient service revenue, net of allowances and contractual adjustments	\$ -	\$ 6,414,661	\$ -	\$ 6,414,661
Allocations from the cooperative program of Tennessee Baptist Convention	321,795	-	-	321,795
Contributions and gifts	597,256	17,170	-	614,426
Investment income and gains	158,982	-	-	158,982
Management fees - Deer Lake Retirement Village	4,455	-	-	4,455
Rental income	22,269	-	-	22,269
Stoneway revenue	275,613	-	-	275,613
Rainbow revenue	187,895	-	-	187,895
Knoxville revenue	294,832	-	-	294,832
Lake Park revenue	149,674	-	-	149,674
Daycare revenue	-	185,463	-	185,463
Gain on involuntary conversion	-	46,457	-	46,457
Other operating revenue	6,000	37,796	(6,000)	37,796
Total support, revenue and gains	2,018,771	6,701,547	(6,000)	8,714,318
Expenses and losses:				
Program services:				
Stoneway expense	368,977	-	-	368,977
Rainbow expense	320,303	-	-	320,303
Knoxville expense	293,514	-	-	293,514
Special Friend expense	146,988	-	-	146,988
Lake Park expense	168,727	-	-	168,727
Nursing services	-	3,772,967	-	3,772,967
Housekeeping services	-	343,253	-	343,253
Dietary services	-	780,592	-	780,592
Maintenance services	-	378,714	-	378,714
Special services	-	432,491	-	432,491
Depreciation	104,892	130,473	-	235,365
Total program services	1,403,401	5,838,490	-	7,241,891
General and administrative	506,891	781,175	(6,000)	1,282,066
Loss on disposal of property	-	4,983	-	4,983
Total expenses and losses	1,910,292	6,624,648	(6,000)	8,528,940
Change in net assets	108,479	76,899	-	185,378
Net assets at beginning of year	3,561,073	2,879,463	-	6,440,536
Net assets at end of year	\$ 3,669,552	\$ 2,956,362	\$ -	\$ 6,625,914

See accompanying independent auditors' report.