

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

FINANCIAL STATEMENTS

OCTOBER 31, 2016

TENNESSEE BAPTIST CHILDREN’S HOMES, INC.

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Independent Auditor's Report

The Board of Trustees
Tennessee Baptist Children's Homes, Inc.
Brentwood, Tennessee

Report on Financial Statements

We have audited the accompanying financial statements of Tennessee Baptist Children's Homes, Inc. (a nonprofit organization), which comprise the statement of financial position as of October 31, 2016, and the related statements of activities, cash flows and functional expenses 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 Children's Homes, Inc. as of October 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the Tennessee Baptist Children's Homes, Inc.'s 2015 financial statements, and our report dated December 7, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Crosslin, PLLC

Nashville, Tennessee
December 5, 2016

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2016
(with comparative totals for 2015)

	<u>ASSETS</u>	
	October 31,	
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 2,645,526	\$ 2,755,278
Investments (Note B)	7,597,773	7,662,763
Accrued income receivable	5,582	5,616
Prepaid expenses and other assets	323,281	367,473
Funds held in custody for children	14,328	63,174
Deposits held by others	507,431	374,761
Beneficial interests in trusts held by trustees (Note J)	15,494,773	15,651,227
Property, buildings and equipment, net (Note C)	<u>7,432,570</u>	<u>7,650,431</u>
Total assets	<u>\$34,021,264</u>	<u>\$34,530,723</u>
 <u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes D and F)	\$ 2,595,088	\$ 2,451,111
Funds held in custody for children	<u>14,328</u>	<u>63,174</u>
Total liabilities	<u>2,609,416</u>	<u>2,514,285</u>
 <u>NET ASSETS</u>		
Unrestricted (Note H):		
Invested in property	\$ 5,712,859	\$ 5,930,719
Designated for operating reserve	3,318,514	3,533,734
Designated for operations	90,471	108,207
Designated for East Tennessee	<u>1,379,208</u>	<u>1,379,208</u>
	<u>10,501,052</u>	<u>10,951,868</u>
Temporarily restricted:		
Program services	258,981	245,253
Property, building and equipment purchases	-	14,431
Invested in property	1,719,710	1,719,711
Residual trusts held by trustees (Note J)	<u>522,337</u>	<u>514,519</u>
	<u>2,501,028</u>	<u>2,493,914</u>
Permanently restricted:		
Endowment (Note L)	3,437,332	3,433,948
Perpetual trusts held by trustees (Notes J and L)	<u>14,972,436</u>	<u>15,136,708</u>
	<u>18,409,768</u>	<u>18,570,656</u>
Total net assets	<u>31,411,848</u>	<u>32,016,438</u>
Total liabilities and net assets	<u>\$34,021,264</u>	<u>\$34,530,723</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2016
(with comparative totals for 2015)

	Total	
	2015	2016
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,562,436	\$ 1,553,065
Contributions	3,651,292	3,901,682
Contributions of beneficial interests in trusts held by trustees	29,866	(6,605)
Fundraising events	158,576	181,620
Bequests	1,124,017	1,055,160
Income from trusts	564,597	603,107
Noncash gifts	136,064	150,186
Noncash gifts - fundraising events	24,430	76,528
Net assets released from restrictions (Note I)	-	-
Total support	<u>7,251,278</u>	<u>7,514,743</u>
Revenue:		
Investment income	315,550	1,036,010
Investment (loss) gains	(273,301)	(929,602)
Investment (loss) gains on funds held by trustees	(517,917)	(149,851)
Child support payments	35,960	34,065
Rental income	54,619	94,921
Property sale	242,730	-
Other	38,753	74,981
Total revenue	<u>(103,606)</u>	<u>160,524</u>
Total support and revenue	<u>7,147,672</u>	<u>7,675,267</u>
Expenses:		
Program services	6,247,986	6,079,837
Supporting services	2,116,430	2,200,020
Total expenses	<u>8,364,416</u>	<u>8,279,857</u>
Total decrease in net assets	(1,216,744)	(604,590)
Net assets at beginning of year	<u>33,233,182</u>	<u>32,016,438</u>
Net assets at end of year	<u>\$ 32,016,438</u>	<u>\$ 31,411,848</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,553,065	\$ -	\$ -
3,314,176	587,306	200
-	-	(6,605)
-	181,620	-
1,055,160	-	-
555,166	44,756	3,185
-	150,186	-
-	76,528	-
<u>1,042,439</u>	<u>(1,042,439)</u>	<u>-</u>
<u>7,520,006</u>	<u>(2,043)</u>	<u>(3,220)</u>
1,034,670	1,340	-
(929,602)	-	-
-	7,817	(157,668)
34,065	-	-
94,921	-	-
-	-	-
<u>74,981</u>	<u>-</u>	<u>-</u>
<u>309,035</u>	<u>9,157</u>	<u>(157,668)</u>
<u>7,829,041</u>	<u>7,114</u>	<u>(160,888)</u>
6,079,837	-	-
<u>2,200,020</u>	<u>-</u>	<u>-</u>
<u>8,279,857</u>	<u>-</u>	<u>-</u>
(450,816)	7,114	(160,888)
<u>10,951,868</u>	<u>2,493,914</u>	<u>18,570,656</u>
<u>\$ 10,501,052</u>	<u>\$ 2,501,028</u>	<u>\$ 18,409,768</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2016
(with comparative totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Decrease in net assets	\$(604,590)	\$(1,216,744)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Investment loss	934,627	280,714
Investment loss on funds held by trustees	149,851	517,917
Depreciation	602,480	635,882
Gifts in-kind	(24,250)	(17,000)
Decrease (increase) in accrued income receivable	34	(1,238)
Decrease (increase) in prepaid expenses and other assets	44,192	(14,563)
Increase in deposits held by others	(132,670)	(9,990)
Decrease (increase) in beneficial interests in trusts	6,603	(39,366)
Increase (decrease) in accounts payable and accrued liabilities	<u>143,977</u>	<u>(35,195)</u>
Net cash provided by operating activities	<u>1,120,254</u>	<u>100,417</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	-	41,458
Purchases of property and equipment	(360,369)	(73,615)
Purchases of investments	(1,223,728)	(389,115)
Proceeds from sales of investments and property held for sale	<u>354,091</u>	<u>156,710</u>
Net cash used in investing activities	<u>(1,230,006)</u>	<u>(264,562)</u>
Net decrease in cash and cash equivalents	(109,752)	(164,145)
Cash and cash equivalents:		
Beginning of year	<u>2,755,278</u>	<u>2,919,423</u>
End of year	<u>\$ 2,645,526</u>	<u>\$ 2,755,278</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2016
(with comparative totals for 2015)

Total			Program
2015	2016		Services
\$3,220,976	\$3,383,338	Salaries	\$2,253,200
1,488,037	1,333,092	Retirement and group insurance	1,061,409
217,358	237,072	Social security	172,494
72,292	74,238	Workers' compensation insurance	58,198
39,231	41,903	Houseparent incentive pay	41,903
5,037,894	5,069,644	Total salaries and related benefits	3,587,204
18,602	11,579	Activities	11,579
35,530	27,389	Allowance and work program	27,389
10,263	5,345	Appreciation events	-
13,008	10,941	Background verification	10,771
12,954	23,104	Board meetings	-
25,114	14,677	Christmas and birthday gifts	14,677
46,175	49,167	Clothing	49,167
39,996	43,172	Cottage outings	43,172
19,565	15,846	Data communications	13,279
5,586	7,582	Dues and memberships	3,300
134,157	132,371	Education	132,371
34,477	63,950	Equipment	63,692
119,794	165,851	Event costs	-
18,788	28,874	Farm	28,874
274,168	232,548	Food	232,548
1,277	-	Foster homes	-
33,200	30,321	Household goods	30,321
230,702	208,582	Insurance	184,218
50,580	59,591	Lawn maintenance	59,591
275,473	171,547	Maintenance	164,917
18,146	17,961	Medical	17,961
8,231	11,531	Miscellaneous	574
300	950	Mother's aid	950
54,949	61,714	Office	25,238
11,490	12,278	Personal hygiene	12,278
51,486	50,430	Postage	6,866
102,210	118,410	Printing and publicity	1,281
50,830	48,857	Professional services - legal	42,889
19,974	20,149	Professional services - non legal	1,426
12,300	15,841	Public relations services	-
20,802	28,459	Recreation	28,459
28,859	49,524	Spiritual enrichment and training	36,105
50,816	53,342	Supplies	53,342
19,342	16,109	Taxes	16,109
118,848	166,703	Telephone	120,863
124,005	80,611	Technology	27,763
55,183	51,656	Travel	22,597
398,124	364,133	Utilities	353,433
90,992	78,038	Vehicle fuel	63,815
54,344	58,601	Vehicle maintenance and repair	50,819
7,728,534	7,677,377	Total expenses before depreciation	5,539,838
635,882	602,480	Depreciation of buildings and equipment	539,999
\$8,364,416	\$8,279,857	Total expenses	\$6,079,837
100%	100%	Percentages	73.4%

Supporting Services		
Management and General	Development	Total
\$759,161	\$370,977	\$1,130,138
162,265	109,418	271,683
36,171	28,407	64,578
8,443	7,597	16,040
-	-	-
<u>966,040</u>	<u>516,399</u>	<u>1,482,439</u>
-	-	-
-	-	-
-	5,345	5,345
170	-	170
23,104	-	23,104
-	-	-
-	-	-
-	-	-
1,580	987	2,567
3,580	702	4,282
-	-	-
258	-	258
-	165,851	165,851
-	-	-
-	-	-
-	-	-
19,004	5,360	24,364
-	-	-
4,051	2,579	6,630
-	-	-
3,073	7,886	10,959
-	-	-
21,803	14,673	36,476
-	-	-
2,389	41,175	43,564
-	117,129	117,129
5,968	-	5,968
18,723	-	18,723
-	15,841	15,841
-	-	-
3,980	9,439	13,419
-	-	-
-	-	-
28,197	17,643	45,840
20,877	31,971	52,848
13,086	15,973	29,059
5,957	4,743	10,700
8,072	6,151	14,223
5,282	2,500	7,782
<u>1,155,194</u>	<u>982,345</u>	<u>2,137,539</u>
<u>57,776</u>	<u>4,705</u>	<u>62,481</u>
<u>\$1,212,970</u>	<u>\$987,050</u>	<u>\$2,200,020</u>
<u>14.6%</u>	<u>11.9%</u>	<u>26.6%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016
(with comparative totals for 2015)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Tennessee Baptist Children's Homes, Inc., ("Children's Homes") is solely owned and operated by the churches of the Tennessee Baptist Convention for the purpose of ministering the love of Jesus Christ to children and families in crisis. The significant accounting principles and practices followed by the Children's Homes are presented below.

Accrual Basis and Financial Statement Presentation

The Children's Homes presents its financial statements on the accrual basis of accounting.

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

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

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

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

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

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation are exercised by management in certain areas of the preparation of financial statements, the most significant areas being the recovery period for property, buildings and equipment and accrued postretirement benefit cost. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016
(with comparative totals for 2015)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Children's Homes considers all cash and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Children's Homes considers any funds invested with GuideStone Financial Services ("GS") to be investments, considering the intent of their investing activities.

Comparative Financial Statements

The financial information shown for fiscal year 2015 in the accompanying statement of financial position, statement of activities, statement of cash flows and statement of functional expenses is included to provide a basis for comparison with fiscal year 2016.

Investments

The Children's Homes reports investments at fair value with gains and losses included in the statement of activities. See notes B and K.

Contributions

The Children's Homes reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Children's Homes has elected to report contributions received with donor imposed restrictions as an increase to unrestricted net assets if the restrictions are met in the same fiscal year that the contributions are received.

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

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016
(with comparative totals for 2015)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property, Buildings and Equipment

Property, buildings, improvements, furniture, equipment and vehicles are stated in the accompanying statement of financial position at cost, or if contributed, at fair value at date of gift.

Depreciable assets are depreciated using the straight-line method over their estimated useful lives.

Donated Materials and Services

Donated materials and certain services are included in the accompanying financial statements at their fair value at date of receipt.

Income Taxes

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

The Children's 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 the Children's Homes include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Children's Homes has determined that such tax positions do not result in an uncertainty requiring recognition.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016
(with comparative totals for 2015)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Funds Held in Trust for Others

Consistent with its charter powers and purposes, the Children's Homes, as trustee, holds certain funds totaling \$928,742 and \$950,602 at October 31, 2016 and 2015, respectively, in accordance with the terms of various trust instruments in which the Children's Homes may have an actual or potential interest. The trusted assets and liabilities are eliminated for reporting purposes. Any residual values which may be received by the Children's Homes have been recorded as beneficial interests in trusts at their respective fair values (Note J).

Pledges

At October 31, 2016, the Children's Homes had no unconditional promises to give. Conditional promises to give at October 31, 2016 and 2015, were \$1,042,417 and \$1,407,232, respectively. These conditional pledges are due over the next several years. It is not practical to estimate the net realizable value of such conditional pledges.

Fair Value Measurements

The Children's Homes utilizes FASB ASC 820, *Fair Value Measurements and Disclosures*, which established a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures regarding the use of fair value measures. Assets and liabilities recorded at fair value in the statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note K). 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 the 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 CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016
(with comparative totals for 2015)

B. INVESTMENTS

Investments at October 31, 2016 and 2015, were as follows:

	Total 2016		Total 2015	
	Market	Cost	Market	Cost
Mutual Funds	\$4,411,784	\$4,419,033	\$4,126,753	\$3,195,098
Certificates of Deposit	3,171,047	3,164,000	3,521,770	3,519,000
Insurance Policy	<u>14,942</u>	<u>14,942</u>	<u>14,240</u>	<u>14,240</u>
	<u>\$7,597,773</u>	<u>\$7,597,975</u>	<u>\$7,662,763</u>	<u>\$6,728,338</u>

Investments at October 31, 2016 and 2015, for each class of net assets were as follows:

	Total	
	2016	2015
Unrestricted	\$4,104,973	\$4,163,074
Temporarily restricted	-	14,431
Permanently restricted	<u>3,492,800</u>	<u>3,485,258</u>
	<u>\$7,597,773</u>	<u>\$7,662,763</u>

Investment income, excluding unrealized gains, earned on investments owned by the Children's Homes amounted to \$1,035,947 and \$315,510 for the years ended October 31, 2016 and 2015, respectively. This income represents yields of 14.5% and 4.9% based on the cost of such investments, and 14.5% and 4.3% based on the market of such investments for fiscal years 2016 and 2015, respectively.

The total return (income yield plus investment gains) on investments owned by the Children's Homes was a gain of 1.4% and 0.6% based on the cost of such investments, and a gain of 1.4% and 0.6% based on the market of such investments for fiscal years 2016 and 2015, respectively.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016
(with comparative totals for 2015)

C. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment at October 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 3,356,504	\$ 3,356,504
Buildings	13,923,683	13,916,984
Furnishings and equipment	608,251	555,280
Improvements other than buildings	1,318,013	1,131,960
Other machinery and equipment	475,914	440,015
Vehicles	901,228	1,029,117
Construction in progress	<u>-</u>	<u>16,128</u>
	20,583,593	20,445,988
Less accumulated depreciation	<u>(13,151,023)</u>	<u>(12,795,557)</u>
Net investment in property, buildings and equipment	<u>\$ 7,432,570</u>	<u>\$ 7,650,431</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016
(with comparative totals for 2015)

D. POSTRETIREMENT BENEFITS

Retirement severance benefits are provided to all retiring employees. In addition, the Children's Homes provides postretirement health care and term life insurance benefits to certain Children's Homes employees provided they remain employed at the Children's Homes until retirement. These benefits cover four retired employees and two active employees and will not be extended to future employees.

The status of the plan at October 31, 2016 and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,628,894	\$ 1,607,206
Service cost	14,267	12,887
Interest cost	61,632	57,561
Actual benefit disbursements	(107,464)	(80,366)
Change in assumptions	133,730	177,979
Actuarial (gain)	<u>(113,553)</u>	<u>(146,373)</u>
Benefit obligation at the end of year	<u>\$ 1,617,506</u>	<u>\$ 1,628,894</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	107,464	80,366
Actual benefit disbursements	<u>(107,464)</u>	<u>(80,366)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$1,617,506</u>	<u>\$1,628,894</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$1,617,506</u>	<u>\$1,628,894</u>

The net periodic postretirement benefit costs recognized during the years ended October 31, 2016 and 2015, which are included in salaries and related benefits, are comprised of the following components:

	<u>2016</u>	<u>2015</u>
Service cost (benefits earned during the period)	\$14,267	\$12,887
Interest cost on accumulated postretirement benefit obligation	61,632	57,561
Loss to the extent recognized	<u>8,885</u>	<u>7,718</u>
	<u>\$84,784</u>	<u>\$78,166</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
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D. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit costs of \$84,784 and \$78,166 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2016 and 2015, respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2017.

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

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

	<u>October 31,</u>	
	<u>2016</u>	<u>2015</u>
Discount Rate	3.30%	3.85%
Expected Long-Term Health Care cost Increase -		
Initial Rate - Post-65 (Medical/Rx)	4.30% - 9.90%	8.00%
Ultimate Rate - Post-65 (Medical/Rx)	4.30% - 5.25%	5.00%
Time to Ultimate Rate	9 years	6 years
Future compensation levels	3.00%	3.00%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Year Ending October 31</u>	<u>Amount</u>
2017	\$ 81,664
2018	72,719
2019	78,991
2020	89,603
2021	84,368
2022 - 2026	521,661

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D. POSTRETIREMENT BENEFITS - Continued

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, the effect of a 1% increase or decrease in the trend rate of the health care cost portion of net periodic postretirement benefit cost for the year ended October 31, 2016 is as follows:

	<u>Health Care Cost Trend Rate</u>		
	<u>Assumed</u>	<u>Impact (1%)</u>	<u>Impact (+1%)</u>
2015 - 2016 NPPBC Components			
(a) 2015 - 2016 Service Cost	\$ -	\$ -	\$ -
(b) 2015 - 2016 Interest Cost	<u>52,383</u>	<u>(5,433)</u>	<u>6,395</u>
Aggregate of (a + b)	\$ 52,383	\$(5,433)	\$ 6,395
APBO as of October 31, 2016	<u>\$1,350,692</u>	<u>\$(140,990)</u>	<u>\$166,035</u>

E. PENSION PLAN

The Children's Homes participates in the retirement program of GuideStone Financial Resources. The plan is a defined contribution plan covering all full-time employees who have completed three years of paid denominational service. The Children's Homes makes contributions to the plan on behalf of eligible employees in amounts equal to 12% of each employee's base salary. According to the plan's provisions, employees may also make certain contributions to the plan. All contributions made to the plan are immediately fully vested to the covered employees.

Under the plan, the value of accumulated benefits is equal to the value of the assets. There is no unfunded value of accrued plan benefits. Pension expense totaled \$220,470 and \$200,713 during the years ended October 31, 2016 and 2015, respectively.

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F. DEFERRED COMPENSATION PLAN

The Children's Homes has a non-elective deferred compensation plan to provide benefits payable to certain management employees at specific future dates, upon termination, retirement, death or disability. Total expense was \$122,421 and \$25,303 during the years ended October 31, 2016 and 2015, respectively. The related liability is included in accounts payable and accrued liabilities in the statement of financial position.

G. CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Children's Homes to concentrations of credit risk, consist principally of cash and cash equivalents and investments. Cash and cash equivalents at October 31, 2016 and 2015, include demand deposits at financial institutions which management believes are high credit quality financial institutions. The deposits possess credit risk to the extent they exceed federally insured limits. Management believes the exposure to concentrations of credit risk relative to securities is limited due to the Children's Homes investment objectives and policies of maintaining a variety of quality investments. Credit risk also extends to uncollateralized receivables.

H. UNRESTRICTED NET ASSETS

Investment in property contains the book value of fixed assets utilized in the Children's Homes' childcare ministry. Funds are available from these net assets only upon sale or exchange of the related assets.

Designated for operating reserve:

The Board has set aside a designated reserve to supplement budget income. Income and transfers from the reserve supplement funds received from the Cooperative Program and other sources enabling the Children's Homes to maintain its childcare programs, staff and facilities.

Income from the sale of land and large estate gifts have been the primary sources of additions to this reserve. These income sources occur at irregular times, in unpredictable amounts, and cannot be relied upon for current budget funding due to their erratic nature.

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H. UNRESTRICTED NET ASSETS - Continued

The Board's plan is to wisely utilize these funds by continuing to add to the board designated reserve similar revenues if and when received. Maintaining this reserve is necessary so that the annual budget can rely on the income and transfers from this reserve as a stable source of income to meet ongoing operational expenses that are in excess of Cooperative Program support and other budget revenue.

Designated for East Tennessee - Funds from an East Tennessee estate gift have been set aside for the resumption of the Children's Homes' Knoxville area residential program as well as other ministry programs in the East Tennessee region.

I. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$1,042,439 were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The purpose restrictions accomplished were for program services.

J. BENEFICIAL INTERESTS IN TRUSTS

Beneficial interests in trusts represents funds held and administered by trustees in accordance with the terms of various trust instruments and includes both residual and perpetual trusts. Residual trusts are structured to pay a remainder corpus amount in the future. Perpetual trusts are structured to pay ongoing income. This income is either currently paying or will be paying in the future.

The Children's Homes records beneficial interest in trusts at their fair value. At October 31, 2016 and 2015, the fair values are as follows:

	2016	2015
Residual trusts:		
Children's Homes as trustee	\$ 487,827	\$ 480,373
Held by outside trustees	34,510	34,146
Total residual trusts	<u>522,337</u>	<u>514,519</u>
Perpetual trusts held by outside trustees:		
Tennessee Baptist Foundation as trustee	10,597,154	10,901,876
Other trustees	4,375,282	4,234,832
Total perpetual trusts held by outside trustees	<u>14,972,436</u>	<u>15,136,708</u>
Total beneficial interests in trusts held by trustees	<u>\$15,494,773</u>	<u>\$15,651,227</u>

During 2016 and 2015, the Children's Homes received interest and dividends of \$603,107 and \$564,597, respectively, on funds held in trust.

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K. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Children's Homes assessment of available market information and appropriate valuation methodologies. The following table summarizes fair value measurements at October 31, 2016 and 2015, for the assets and liabilities measured at fair value on a recurring basis:

<u>October 31, 2016</u>	Assets Measured at <u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds	\$ 4,411,784	\$4,411,784	\$ -	\$ -
Certificates of deposit	3,171,047	3,171,047	-	-
Insurance policy	<u>14,942</u>	<u>-</u>	<u>-</u>	<u>14,942</u>
	7,597,773	7,582,831	-	14,942
Beneficial interests	15,494,773	-	15,494,773	-
<u>October 31, 2015</u>				
Investments:				
Mutual funds	\$ 4,126,753	\$4,126,753	\$ -	\$ -
Certificates of deposit	3,521,770	3,521,770	-	-
Insurance policy	<u>14,240</u>	<u>-</u>	<u>-</u>	<u>14,240</u>
	7,662,763	7,648,523	-	14,240
Beneficial interests	15,651,228	-	15,651,228	-

The carrying value of cash equivalents, receivables, and accounts payable and accrued liabilities approximate fair value based on the short-term nature of these instruments.

L. ENDOWMENT FUNDS

The Children's Homes' endowment consists of individual funds established for a variety of purposes and includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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L. ENDOWMENT FUNDS - Continued

Interpretation of Relevant Law

The Children's Homes has interpreted SUPMIFA, State of Tennessee's State Uniform Prudent Management of Institutional Funds Act, 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, the Children's 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 the Fund in a manner consistent with the standard of prudence prescribed by applicable state laws. In accordance with applicable state laws, the Children's Homes considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Children's Homes and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Children's Homes
- The investment policies of the Children's Homes

Endowment Net Asset Composition by Type of Fund as of October 31, 2016

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$31,031	\$ 3,437,332	\$ 3,468,363
Perpetual trusts held by trustees	<u>-</u>	<u>14,972,436</u>	<u>14,972,436</u>
Total funds	<u>\$31,031</u>	<u>\$18,409,768</u>	<u>\$18,440,799</u>

Endowment Net Asset Composition by Type of Fund as of October 31, 2015

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$27,815	\$ 3,433,948	\$ 3,461,763
Perpetual trusts held by trustees	<u>-</u>	<u>15,136,708</u>	<u>15,136,708</u>
Total funds	<u>\$27,815</u>	<u>\$18,570,656</u>	<u>\$18,598,471</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
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L. ENDOWMENT FUNDS - Continued

Changes in Endowment Net Assets for the years ended October 31, 2016 and 2015

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Endowment net assets, October 31, 2014</i>	\$ 22,729	\$ 19,040,524	\$ 19,063,253
Investment return:			
Investment income	24,969	-	24,969
Net appreciation (depreciation) (realized and unrealized)	<u>5,086</u>	<u>(522,947)</u>	<u>(517,861)</u>
Total investment return	<u>30,055</u>	<u>(522,947)</u>	<u>492,892</u>
Contributions	<u>-</u>	<u>53,079</u>	<u>53,079</u>
Appropriation of endowment assets for expenditure	<u>(24,969)</u>	<u>-</u>	<u>(24,969)</u>
<i>Endowment net assets, October 31, 2015</i>	<u>27,815</u>	<u>18,570,656</u>	<u>18,598,471</u>
Investment return:			
Investment income	32,504	-	32,504
Net appreciation (depreciation) (realized and unrealized)	<u>3,216</u>	<u>(157,668)</u>	<u>(154,452)</u>
Total investment return	<u>35,720</u>	<u>(157,668)</u>	<u>(121,948)</u>
Contributions	<u>-</u>	<u>(3,220)</u>	<u>(3,220)</u>
Appropriation of endowment assets for expenditure	<u>(32,504)</u>	<u>-</u>	<u>(32,504)</u>
<i>Endowment net assets, October 31, 2016</i>	<u>\$ 31,031</u>	<u>\$ 18,409,768</u>	<u>\$ 18,440,799</u>

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L. ENDOWMENT FUNDS - Continued

Return Objectives and Risk Parameters

The Children's Homes' investment and spending policies for endowment assets attempts to provide a stream of funding for its programs. Endowment assets include those assets of donor-restricted funds that the Children's Homes must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested with the goals of high current return and preservation of capital. The Children's Homes expects its endowment funds to provide the maximum attainable current yield while assuming a minimum level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its objectives, the Children's Homes relies on a strategy in which investment returns are achieved through current yield (interest and dividends). The Children's Homes does not invest in companies or industries whose known products, services or practices are contrary to the beliefs or practices of Southern Baptists.

Spending Policy and How Investment Objectives Relate to Spending Policy

The Children's Homes has a practice of appropriating the current earnings for distribution annually. In establishing this practice the Children's Homes considered the critical need for annual income as well as the existence of non-endowment investments. This is consistent with the Children's Homes objectives of achieving high current return and preservation of capital.

M. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 4, 2016, the issuance date of the financial statements, and has determined that there are no subsequent events requiring disclosure.