

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

FINANCIAL STATEMENTS

OCTOBER 31, 2011

TENNESSEE BAPTIST CHILDREN’S HOMES, INC.

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Tennessee Baptist Children's Homes, Inc. as of October 31, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Tennessee Baptist Children's Homes, Inc.'s 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 Tennessee Baptist Children's Homes, Inc.'s 2010 financial statements and, in our report dated December 3, 2010, we expressed an unqualified opinion on these 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 Children's Homes, Inc., as of October 31, 2011, 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.

Crosslin & Associates, P.C.

December 5, 2011
Nashville, Tennessee

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2011
(with comparative totals for 2010)

<u>ASSETS</u>		
	October 31,	
	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 3,754,093	\$ 5,180,317
Investments (Note B)	8,315,405	8,201,968
Accrued income receivable	25,195	20,670
Prepaid expenses and other assets	287,358	271,683
Funds held in custody for children	86,782	71,670
Deposits held by others	323,264	223,066
Beneficial interests in trusts held by trustees (Note J)	12,428,810	12,257,757
Property, buildings and equipment, net (Note C)	<u>9,121,053</u>	<u>9,010,426</u>
Total assets	<u>\$34,341,960</u>	<u>\$35,237,557</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes D and F)	\$ 2,351,087	\$ 2,094,623
Funds held in custody for children	<u>86,782</u>	<u>71,670</u>
Total liabilities	<u>2,437,869</u>	<u>2,166,293</u>
<u>NET ASSETS</u>		
Unrestricted (Note H):		
Invested in property	\$ 7,401,342	\$ 7,290,715
Designated for operating reserve	4,079,201	3,872,322
Designated for operations	94,551	197,009
Designated for East Tennessee	<u>1,379,208</u>	<u>1,379,208</u>
	<u>12,954,302</u>	<u>12,739,254</u>
Temporarily restricted:		
Program services	809,957	2,315,742
Property, building and equipment purchases	618,871	779,053
Invested in property	1,719,711	1,719,711
Residual trusts held by trustees (Note J)	<u>517,441</u>	<u>562,953</u>
	<u>3,665,980</u>	<u>5,377,459</u>
Permanently restricted:		
Endowment (Note L)	3,372,440	3,259,747
Perpetual trusts held by trustees (Notes J and L)	<u>11,911,369</u>	<u>11,694,804</u>
	<u>15,283,809</u>	<u>14,954,551</u>
Total net assets	<u>31,904,091</u>	<u>33,071,264</u>
Total liabilities and net assets	<u>\$34,341,960</u>	<u>\$35,237,557</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2011
(with comparative totals for 2010)

	Total	
	2010	2011
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,392,346	\$ 1,513,630
Contributions	3,287,660	3,135,430
Contributions of beneficial interests in trusts held by trustees	43,247	396,783
Fundraising events	112,635	110,373
Bequests	621,767	517,184
Income from trusts	383,193	456,694
Noncash gifts	201,495	267,023
Noncash gifts - fundraising events	38,522	8,471
Net assets released from restrictions (Note I)	-	-
Total support	<u>6,080,865</u>	<u>6,405,588</u>
Revenue:		
Investment income	127,808	111,326
Investment gains	225,732	14,934
Investment gains (losses) on funds held by trustees	916,526	(167,192)
Child support payments	40,773	26,429
Rental income	46,616	46,757
Other	<u>48,286</u>	<u>22,556</u>
Total revenue	<u>1,405,741</u>	<u>54,810</u>
Total support and revenue	<u>7,486,606</u>	<u>6,460,398</u>
Expenses:		
Program services	5,344,974	5,972,812
Supporting services	<u>1,471,654</u>	<u>1,654,759</u>
Total expenses	<u>6,816,628</u>	<u>7,627,571</u>
Total increase (decrease) in net assets	669,978	(1,167,173)
Net assets at beginning of year	<u>32,401,286</u>	<u>33,071,264</u>
Net assets at end of year	<u>\$ 33,071,264</u>	<u>\$ 31,904,091</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,513,630	\$ -	\$ -
2,792,555	342,575	300
-	-	396,783
-	110,373	-
366,058	27,286	123,840
259,379	194,008	3,307
-	267,023	-
-	8,471	-
<u>2,679,317</u>	<u>(2,679,317)</u>	<u>-</u>
<u>7,610,939</u>	<u>(1,729,581)</u>	<u>524,230</u>
106,247	5,079	-
14,934	-	-
-	13,023	(180,215)
26,429	-	-
46,757	-	-
<u>37,313</u>	<u>-</u>	<u>(14,757)</u>
<u>231,680</u>	<u>18,102</u>	<u>(194,972)</u>
<u>7,842,619</u>	<u>(1,711,479)</u>	<u>329,258</u>
5,972,812	-	-
<u>1,654,759</u>	<u>-</u>	<u>-</u>
<u>7,627,571</u>	<u>-</u>	<u>-</u>
215,048	(1,711,479)	329,258
<u>12,739,254</u>	<u>5,377,459</u>	<u>14,954,551</u>
<u>\$ 12,954,302</u>	<u>\$ 3,665,980</u>	<u>\$15,283,809</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2011
(with comparative totals for 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$(1,167,173)	\$ 669,978
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Investment gains	(14,934)	(225,732)
Investment losses (gains) on funds held by trustees	167,192	(916,526)
Depreciation	661,417	655,452
Gifts in-kind	(63,056)	(83,683)
(Increase) decrease in accrued income receivable	(4,525)	10,268
Increase in prepaid expenses and other assets	(41,324)	(5,734)
Decrease in property held for sale	25,649	797
Increase in deposits held by others	(100,198)	(50,425)
Increase in beneficial interests in trusts	(396,782)	(43,251)
Increase (decrease) in accounts payable and accrued liabilities	<u>256,464</u>	<u>(10,478)</u>
Net cash (used in) provided by operating activities	<u>(677,270)</u>	<u>666</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	58,537	85,831
Purchases of property and equipment	(708,988)	(238,651)
Purchases of investments	(335,764)	(645,154)
Proceeds from sales of investments and property held for sale	<u>237,261</u>	<u>4,950,944</u>
Net cash (used in) provided by investing activities	<u>(748,954)</u>	<u>4,152,970</u>
Net (decrease) increase in cash and cash equivalents	(1,426,224)	4,153,636
Cash and cash equivalents:		
Beginning of year	<u>5,180,317</u>	<u>1,026,681</u>
End of year	<u>\$ 3,754,093</u>	<u>\$ 5,180,317</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2011
(with comparative totals for 2010)

Total			Program
2010	2011		Services
\$2,567,473	\$ 2,659,988	Salaries	\$1,934,323
954,599	1,314,082	Retirement and group insurance	944,388
169,345	177,880	Social security	138,548
33,460	32,716	Worker's compensation insurance	23,898
<u>33,050</u>	<u>40,681</u>	Houseparent's incentive pay	<u>40,681</u>
3,757,927	4,225,347	Total salaries and related benefits	3,081,838
17,228	14,367	Activities	14,367
30,540	31,388	Allowance and work program	31,388
11,032	24,382	Appreciation events	312
4,673	4,709	Background verification	4,490
9,931	11,200	Board meetings	185
29,472	29,986	Christmas and birthday gifts	29,986
38,843	44,464	Clothing	44,464
37,225	45,669	Cottage outings	45,669
17,209	16,982	Data communications	14,260
6,950	6,424	Dues and memberships	2,936
144,365	147,691	Education	147,691
39,371	90,986	Equipment	90,986
77,402	47,970	Event costs	-
3,055	498	Family ministries	498
21,093	15,269	Farm	15,269
236,210	334,426	Food	334,426
14,493	12,961	Foster homes	12,961
18,566	28,454	Household goods	28,454
163,280	167,876	Insurance	150,608
37,230	43,546	Lawn maintenance	43,546
298,711	444,864	Maintenance	406,636
28,494	27,013	Medical	27,013
9,634	4,180	Miscellaneous	3,639
645	105	Mother's aid	105
46,667	54,828	Office	26,599
8,271	11,310	Personal hygiene	11,310
58,205	47,402	Postage	8,980
79,045	68,509	Printing and publicity	-
22,872	26,110	Professional services - legal	16,384
30,778	31,300	Professional services - non legal	-
23,891	27,076	Public relations services	-
33,345	32,461	Recreation	32,461
11,417	13,123	Spiritual enrichment and training	11,172
55,439	61,962	Supplies	61,962
35,026	38,761	Taxes	38,761
53,964	57,680	Telephone	45,814
36,117	40,133	Technology	12,963
17,165	21,119	Travel	10,810
446,089	430,140	Utilities	421,146
98,196	120,523	Vehicle fuel	99,236
<u>51,110</u>	<u>62,960</u>	Vehicle maintenance and repair	<u>53,905</u>
6,161,176	6,966,154	Total expenses before depreciation	5,383,230
<u>655,452</u>	<u>661,417</u>	Depreciation of buildings and equipment	<u>589,582</u>
<u>\$6,816,628</u>	<u>\$7,627,571</u>	Total expenses	<u>\$5,972,812</u>
<u>100%</u>	<u>100%</u>	Percentages	<u>78.3%</u>

Supporting Services		
Management and General	Development	Total
\$543,088	\$182,577	\$ 725,665
309,042	60,652	369,694
32,228	7,104	39,332
6,444	2,374	8,818
-	-	-
890,802	252,707	1,143,509
-	-	-
-	-	-
-	24,070	24,070
219	-	219
11,015	-	11,015
-	-	-
-	-	-
-	-	-
585	2,137	2,722
2,842	646	3,488
-	-	-
-	-	-
-	47,970	47,970
-	-	-
-	-	-
-	-	-
-	-	-
14,885	2,383	17,268
-	-	-
24,919	13,309	38,228
-	-	-
-	541	541
-	-	-
21,191	7,038	28,229
-	-	-
2,979	35,443	38,422
-	68,509	68,509
9,726	-	9,726
4,690	26,610	31,300
-	27,076	27,076
-	-	-
-	-	-
1,852	99	1,951
-	-	-
7,270	4,596	11,866
18,147	9,023	27,170
7,843	2,466	10,309
4,382	4,612	8,994
15,765	5,522	21,287
6,373	2,682	9,055
1,045,485	537,439	1,582,924
64,585	7,250	71,835
<u>\$1,110,070</u>	<u>\$544,689</u>	<u>\$1,654,759</u>
<u>14.6%</u>	<u>7.1%</u>	<u>21.7%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011
(with comparative totals for 2010)

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, 2011
(with comparative totals for 2010)

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 2010 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 2011.

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 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, 2011
(with comparative totals for 2010)

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.

Funds Held in Trust for Others

Consistent with its charter powers and purposes, the Children's Homes, as trustee, holds certain funds totaling \$659,974 and \$676,091 at October 31, 2011 and 2010, respectively, in accordance with the terms of various trust instruments in which the Children's Homes may have an actual or potential interest. The trustee 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).

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011
(with comparative totals for 2010)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pledges

At October 31, 2011, the Children's Homes had no unconditional 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.

B. INVESTMENTS

Investments at October 31, 2011 and 2010 were as follows:

	<u>Total 2011</u>		<u>Total 2010</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual Funds	\$4,875,989	\$4,704,383	\$5,698,103	\$5,414,364
Certificates of Deposit	3,428,203	3,442,000	2,493,427	2,593,427
Insurance Policy	<u>11,213</u>	<u>11,213</u>	<u>10,438</u>	<u>10,438</u>
	<u>\$8,315,405</u>	<u>\$8,157,596</u>	<u>\$8,201,968</u>	<u>\$8,018,229</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011
(with comparative totals for 2010)

B. INVESTMENTS - Continued

Investments at October 31, 2011 and 2010 for each class of net assets were as follows:

	Total	
	2011	2010
Unrestricted	\$4,334,057	\$3,618,023
Temporarily restricted	618,871	1,316,131
Permanently restricted	<u>3,362,477</u>	<u>3,267,814</u>
	<u>\$8,315,405</u>	<u>\$8,201,968</u>

Interest and dividends earned on investments owned by the Children's Homes amounted to \$95,178 and \$97,582 for the years ended October 31, 2011 and 2010, respectively. This income represents yields of 1.7% and 1.6% based on the cost of such investments, and 1.3% and 1.6% based on the market of such investments for fiscal years 2011 and 2010, respectively.

The total return (income yield plus investment gains) on investments owned by the Children's Homes was a gain of 1.4% and 4.0% based on the cost of such investments, and a gain of 1.3% and 4.0% based on the market of such investments for fiscal years 2011 and 2010, respectively.

C. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment at October 31, 2011 and 2010 consisted of the following:

	2011	2010
Land	\$ 2,929,728	\$ 2,929,728
Buildings	13,647,055	12,688,373
Furnishings and equipment	1,474,740	1,776,627
Improvements other than buildings	1,374,755	1,432,000
Other machinery and equipment	716,250	633,006
Vehicles	929,338	888,029
Construction in progress (estimated cost to complete at October 31, 2011 - \$1,285,000)	<u>505,692</u>	<u>505,692</u>
	21,577,558	20,853,455
Less accumulated depreciation	<u>(12,456,505)</u>	<u>(11,843,029)</u>
Net investment in property, buildings and equipment	<u>\$ 9,121,053</u>	<u>\$ 9,010,426</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011
(with comparative totals for 2010)

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 five retired employees and two active employees and will not be extended to future employees.

The status of the plan at October 31, 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,275,335	\$ 1,341,317
Service cost	37,667	39,443
Interest cost	61,208	75,601
Actual benefit disbursements	(57,010)	(63,190)
Change in assumptions	96,787	95,007
Actuarial (gain) loss	<u>47,464</u>	<u>(212,843)</u>
Benefit obligation at the end of year	<u>\$ 1,461,451</u>	<u>\$ 1,275,335</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	57,010	63,190
Actual benefit disbursements	<u>(57,010)</u>	<u>(63,190)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$1,461,451</u>	<u>\$1,275,335</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$1,461,451</u>	<u>\$1,275,335</u>

The net periodic postretirement benefit costs for health care recognized during the years ended October 31, 2011 and 2010, which are included in salaries and related benefits, are comprised of the following components:

	<u>2011</u>	<u>2010</u>
Service cost (benefits earned during the period)	\$37,667	\$ 39,443
Interest cost on accumulated postretirement benefit obligation	<u>61,208</u>	<u>75,601</u>
	<u>\$98,875</u>	<u>\$115,044</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011
(with comparative totals for 2010)

D. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit costs of \$98,875 and \$115,044 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2011 and 2010 respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2011.

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

	<u>2011</u>	<u>2010</u>
Healthcare costs	8.75%	8.75%
Future compensation levels	3.00%	3.25%
Discount rate	4.35%	4.75%

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

<u>Year Ending</u> <u>October 31</u>	<u>Health</u> <u>Care</u>	<u>Life</u> <u>Insurance</u>	<u>Retirement</u> <u>Gift</u>	<u>Total</u>
2012	\$ 52,188	\$ 3,987	\$21,397	\$ 77,572
2013	62,365	4,566	10,084	77,015
2014	67,199	5,470	2,294	74,963
2015	75,188	5,795	53,862	134,845
2016	79,121	5,530	18,183	102,834
2017 - 2021	388,178	31,949	69,306	489,433

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

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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 in the trend rate of the health care cost portion of net periodic postretirement benefit cost for the year ended October 31, 2011 is as follows:

	Health Care Cost Trend Rate		<u>Increase</u>
	<u>8.75%</u>	<u>9.75%</u>	
Service cost	\$21,253	\$24,848	\$3,595
Interest cost	<u>48,732</u>	<u>55,025</u>	<u>6,293</u>
Net periodic postretirement health care benefit cost	<u>\$69,985</u>	<u>\$79,873</u>	<u>\$9,888</u>
Accumulated postretirement benefit obligation for health care benefits at October 31, 2011	<u>\$1,219,456</u>	<u>\$1,366,539</u>	<u>\$147,083</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 \$262,520 and \$257,162 during the years ended October 31, 2011 and 2010, 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 \$27,793 and \$22,788 during the years ended October 31, 2011 and 2010, 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, 2011 and 2010 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 \$2,679,317 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, 2011 and 2010 the fair values are as follows:

	<u>2011</u>	<u>2010</u>
Residual trusts:		
Children's Homes as trustee	\$ 399,057	\$ 386,318
Held by outside trustees	<u>118,384</u>	<u>176,635</u>
Total residual trusts	517,441	562,953
Perpetual trusts held by outside trustees:		
Tennessee Baptist Foundation as trustee	8,080,236	7,802,717
Other trustees	<u>3,831,133</u>	<u>3,892,087</u>
Total perpetual trusts held by outside trustees	11,911,369	562,953
Total beneficial interests in trusts held by trustees	<u>\$12,428,810</u>	<u>\$12,257,757</u>

During 2011 and 2010, the Children's Homes received interest and dividends of \$456,694 and \$383,193, 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, 2011 for the assets and liabilities measured at fair value on a recurring basis:

	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	\$ 4,875,989	\$4,875,989	\$ -	\$ -
Certificates of deposit	3,428,203	3,428,203	-	-
Insurance policy	<u>11,213</u>	<u>-</u>	<u>-</u>	<u>11,213</u>
	8,315,405	8,304,192	-	11,213
Beneficial interests	12,428,810	-	12,428,810	-

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.

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

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L. ENDOWMENT FUNDS - Continued

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, 2011

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(21,132)	\$ 3,372,440	\$ 3,351,308
Perpetual trusts held by trustees	<u>-</u>	<u>11,911,369</u>	<u>11,911,369</u>
Total funds	<u>\$(21,132)</u>	<u>\$15,283,809</u>	<u>\$15,262,677</u>

Endowment Net Asset Composition by Type of Fund as of October 31, 2010

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$7,203	\$ 3,259,747	\$ 3,266,950
Perpetual trusts held by trustees	<u>-</u>	<u>11,694,804</u>	<u>11,694,804</u>
Total funds	<u>\$7,203</u>	<u>\$14,954,551</u>	<u>\$14,961,754</u>

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L. ENDOWMENT FUNDS - Continued

Changes in Endowment Net Assets for the years ended October 31, 2011 and 2010

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Endowment net assets</i> , November 1, 2009	\$(8,151)	\$ 13,891,906	\$ 13,883,755
Investment return:			
Investment income	66,619	-	66,619
Net appreciation (realized and unrealized)	<u>15,354</u>	<u>862,472</u>	<u>877,826</u>
Total investment return	<u>81,973</u>	<u>862,472</u>	<u>944,445</u>
Contributions	<u>-</u>	<u>200,173</u>	<u>200,173</u>
Appropriation of endowment assets for expenditure	<u>(66,619)</u>	<u>-</u>	<u>(66,619)</u>
<i>Endowment net assets</i> , October 31, 2010	<u>7,203</u>	<u>14,954,551</u>	<u>14,961,754</u>
Investment return:			
Investment income	44,815	-	44,815
Net depreciation (realized and unrealized)	<u>(28,335)</u>	<u>(180,215)</u>	<u>(208,550)</u>
Total investment return	<u>16,480</u>	<u>(180,215)</u>	<u>(163,735)</u>
Contributions	<u>-</u>	<u>509,473</u>	<u>509,473</u>
Appropriation of endowment assets for expenditure	<u>(44,815)</u>	<u>-</u>	<u>(44,815)</u>
<i>Endowment net assets</i> , October 31, 2011	<u><u>\$(21,132)</u></u>	<u><u>\$ 15,283,809</u></u>	<u><u>\$ 15,262,677</u></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 5, 2011, the issuance date of the financial statements, and has determined that there are no subsequent events requiring disclosure.