

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

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2005**

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, 2005, 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.

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, 2005, 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, Vaden & Associates, P.C.*

November 23, 2005  
Nashville, Tennessee

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2005  
(with comparative totals for 2004)

	<u>ASSETS</u>	
	October 31,	
	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 491,639	\$ 464,074
Investments (Note B)	849,041	800,696
Investments held by Tennessee Baptist Foundation (Note B)	14,666,856	14,588,096
Accrued income receivable	116,120	60,123
Notes receivable (Note D)	298,860	731,192
Prepaid expenses and other assets	295,730	308,709
Funds held in custody for children	19,337	24,209
Deposits held by others	140,878	106,767
Beneficial interests in trusts held by trustees (Note M)	10,263,305	9,569,970
Property, buildings and equipment, net (Note C)	<u>9,553,791</u>	<u>9,613,495</u>
Total assets	<u>\$36,695,557</u>	<u>\$36,267,331</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes F, G and I)	\$ 1,509,559	\$ 1,415,395
Funds held in custody for children	<u>19,337</u>	<u>24,209</u>
Total liabilities	<u>1,528,896</u>	<u>1,439,604</u>
<u>NET ASSETS</u>		
Unrestricted (Note K):		
Invested in property	\$ 7,834,080	\$ 7,893,784
Designated for operating reserve	2,874,327	3,049,865
Designated for operations	2,758,117	2,917,190
Designated for East Tennessee	<u>1,866,740</u>	<u>1,900,000</u>
	<u>15,333,264</u>	<u>15,760,839</u>
Temporarily restricted:		
Program services	2,659,861	2,681,543
Property, building and equipment purchases	2,968,515	3,035,550
Invested in property	1,719,711	1,719,711
Residual trusts held by trustees (Note M)	<u>331,958</u>	<u>279,691</u>
	<u>7,680,045</u>	<u>7,716,495</u>
Permanently restricted:		
Endowment	2,222,005	2,060,114
Perpetual trusts held by trustees (Note M)	<u>9,931,347</u>	<u>9,290,279</u>
	<u>12,153,352</u>	<u>11,350,393</u>
Total net assets	<u>35,166,661</u>	<u>34,827,727</u>
Total liabilities and net assets	<u>\$36,695,557</u>	<u>\$36,267,331</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2005  
(with comparative totals for 2004)

	Total	
	2004	2005
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,217,937	\$ 1,255,171
Contributions	3,463,672	3,527,896
Contributions of beneficial interests in trusts held by trustees	1,574,638	724,406
Fundraising Events	298,834	185,421
Bequests	697,924	667,235
Income from trusts	294,068	341,731
Noncash gifts	315,456	227,223
Noncash gifts - fund raising events	12,313	32,196
Net assets released from restrictions (Note L)	-	-
Total support	<u>7,874,842</u>	<u>6,961,279</u>
Revenue:		
Investment income	319,958	431,152
Investment gains (losses)	202,082	88,710
Investment gains (losses) on funds held by trustees	167,497	( 31,072)
Adoption services fees	1,000	2,200
Child support payments	18,072	11,879
Rental income	83,665	79,767
Other	<u>50,753</u>	<u>62,104</u>
Total revenue	<u>843,027</u>	<u>644,740</u>
Total support and revenue	<u>8,717,869</u>	<u>7,606,019</u>
Expenses:		
Program services	5,500,870	5,706,058
Supporting services	<u>1,625,716</u>	<u>1,561,027</u>
Total expenses	<u>7,126,586</u>	<u>7,267,085</u>
Net increase (decrease) in net assets	1,591,283	338,934
Net assets at beginning of year	<u>33,236,444</u>	<u>34,827,727</u>
Net assets at end of year	<u>\$34,827,727</u>	<u>\$ 35,166,661</u>

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<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,255,171	\$ -	\$ -
2,720,917	773,628	33,351
-	5,009	719,397
1,125	184,296	-
183,044	359,191	125,000
200,935	137,255	3,541
-	227,223	-
-	32,196	-
<u>1,792,368</u>	<u>(1,792,368)</u>	<u>-</u>
<u>6,153,560</u>	<u>( 73,570)</u>	<u>881,289</u>
403,427	27,725	-
126,573	( 37,863)	-
-	47,258	( 78,330)
2,200	-	-
11,879	-	-
79,767	-	-
62,104	-	-
<u>685,950</u>	<u>37,120</u>	<u>( 78,330)</u>
<u>6,839,510</u>	<u>( 36,450)</u>	<u>802,959</u>
5,706,058	-	-
<u>1,561,027</u>	<u>-</u>	<u>-</u>
<u>7,267,085</u>	<u>-</u>	<u>-</u>
( 427,575)	( 36,450)	802,959
<u>15,760,839</u>	<u>7,716,495</u>	<u>11,350,393</u>
<u>\$ 15,333,264</u>	<u>\$ 7,680,045</u>	<u>\$ 12,153,352</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED OCTOBER 31, 2005  
(with comparative totals for 2004)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Increase in net assets	\$ 338,934	\$ 1,591,283
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Investment gains	( 88,710)	( 202,082)
Investment gains (losses) on funds held by trustees	31,072	( 167,497)
Depreciation	637,100	636,462
Gifts in-kind	( 22,805)	( 43,192)
Value of estate property received	-	( 9,000)
Increase in accrued income receivable	( 55,997)	( 14,612)
Decrease (increase) in prepaid expenses and other assets	12,979	( 115,101)
Increase in deposits	( 34,111)	( 23,034)
Increase in beneficial interests in trusts	( 724,406)	(1,358,690)
Increase in accounts payable and accrued liabilities	<u>94,162</u>	<u>151,188</u>
Net cash provided by operating activities	<u>188,218</u>	<u>445,725</u>
Cash flows from investing activities:		
Purchases of property and equipment	( 554,592)	( 250,406)
Purchases of investments	( 593,729)	(1,837,058)
Proceeds from sale of properties and equipment	-	222,269
Proceeds from sales of investments and property held for sale	555,336	1,104,063
Decrease (increase) in notes receivable	<u>432,332</u>	<u>( 204,146)</u>
Net cash used in investing activities	<u>( 160,653)</u>	<u>( 965,278)</u>
Net increase (decrease) in cash and cash equivalents	27,565	( 519,553)
Cash and cash equivalents:		
Beginning of year	<u>464,074</u>	<u>983,627</u>
End of year	<u>\$ 491,639</u>	<u>\$ 464,074</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED OCTOBER 31, 2005  
(with comparative totals for 2004)

Total			Program
2004	2005		Services
\$2,575,562	\$2,583,378	Salaries	\$1,917,034
837,156	818,385	Annuity and group insurance	614,747
171,652	168,220	Social security and benefits	128,129
33,428	34,776	Houseparents' incentives	34,776
3,617,798	3,604,759	Total salaries and related benefits	2,694,686
33,344	28,392	Activities	28,392
9	-	Adoption services	-
31,305	33,083	Allowance and work program	33,083
5,087	4,699	Background verification	4,699
12,609	16,064	Board meetings	-
44,161	47,583	Summer 4 Champions	47,583
61,705	61,490	Christmas and birthday gifts	61,490
41,933	41,972	Clothing	41,972
35,164	25,260	Data communications	23,151
10,803	12,393	Dues and memberships	8,193
79,639	83,654	Equipment	61,463
180,647	105,523	Event costs	-
23,660	38,066	Farm	38,066
1,563	2,012	Family ministries	2,012
326,444	333,181	Food	333,181
8,794	11,018	Foster homes	11,018
240,901	328,114	Insurance	279,279
353,974	365,925	Maintenance	364,830
56,000	63,320	Medical	63,320
33,530	62,465	Miscellaneous	60,097
-	5,917	Mission projects	5,917
754	1,223	Mother's aid	1,223
43,479	52,107	Office	34,167
35,848	28,409	Postage	10,300
152,904	120,962	Printing and publicity	6,673
12,949	24,089	Professional services - legal	19,223
45,836	107,082	Professional services - non legal	4,039
82,312	64,867	Public relations services	-
55,113	70,970	Recreation	70,970
3,324	3,324	Rent	3,324
112,453	110,703	School	110,703
13,109	13,538	Spiritual enrichment and training	8,971
96,477	93,457	Supplies	93,458
13,528	10,538	Taxes	10,537
78,618	79,513	Telephone	64,780
120,568	138,190	Transportation	138,190
64,273	62,952	Travel	30,333
359,510	373,171	Utilities	366,377
6,490,124	6,629,985	Total expenses before depreciation	5,135,700
636,462	637,100	Depreciation of buildings and equipment	570,358
<u>\$7,126,586</u>	<u>\$7,267,085</u>	Total expenses	<u>\$5,706,058</u>
<u>100%</u>	<u>100%</u>	Percentages	<u>78.5%</u>



<u>Supporting Services</u>		
<u>Management and General</u>	<u>Development</u>	<u>Total</u>
\$ 515,731	\$150,613	\$ 666,344
168,984	34,654	203,638
31,783	8,308	40,091
-	-	-
<u>716,498</u>	<u>193,575</u>	<u>910,073</u>
-	-	-
-	-	-
-	-	-
-	-	-
16,064	-	16,064
-	-	-
-	-	-
-	-	-
2,109	-	2,109
3,246	954	4,200
19,513	2,678	22,191
-	105,523	105,523
-	-	-
-	-	-
-	-	-
-	-	-
39,495	9,340	48,835
1,066	29	1,095
-	-	-
1,729	639	2,368
-	-	-
-	-	-
16,967	973	17,940
12,285	5,824	18,109
124	114,165	114,289
4,866	-	4,866
98,731	4,312	103,043
-	64,867	64,867
-	-	-
-	-	-
-	-	-
4,111	456	4,567
-	-	-
-	-	-
11,530	3,203	14,733
-	-	-
27,342	5,277	32,619
<u>4,747</u>	<u>2,047</u>	<u>6,794</u>
980,423	513,862	1,494,285
<u>64,702</u>	<u>2,040</u>	<u>66,742</u>
<u>\$1,045,125</u>	<u>\$515,902</u>	<u>\$1,561,027</u>
<u>14.4%</u>	<u>7.1%</u>	<u>21.5%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(with comparative totals for 2004)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Tennessee Baptist Children's Homes, Inc., (the "Children's Homes") is operated under the auspices of the Tennessee Baptist Convention to provide residential care to orphaned, neglected and abused children. 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.

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 the Tennessee Baptist Foundation to be investments, considering the intent of their investing activities.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(with comparative totals for 2004)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Financial Statements

The financial information shown for fiscal year 2004 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 2005.

Investments

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

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.

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 market value at date of gift.

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

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(with comparative totals for 2004)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated Materials and Services

Donated materials and certain services are included in the accompanying financial statements at their fair market 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.

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation is 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.

Funds Held in Trust for Others

Consistent with its charter powers and purposes, the Children's Homes, as trustee, holds certain funds totaling \$656,809 and \$686,436 at October 31, 2005 and 2004 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 the present value of their respective fair market values (Note M).

Pledges

The Children's Homes at October 31, 2005 had no unconditional pledges.

Conditional promises to give at October 31, 2005 and 2004 were \$4,910 and \$21,573, 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 of Financial Instruments

The carrying value of cash, receivables, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(with comparative totals for 2004)

B. INVESTMENTS

Investments at October 31, 2005 and 2004 were as follows:

	<u>Investments Held By</u>		<u>Total 2005</u>		<u>Total 2004</u>	
	<u>TBF</u>	<u>Children's Homes</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual Funds	\$10,495,725	\$337,709	\$10,833,434	\$11,070,188	\$13,137,737	\$13,465,517
United States Government Securities	4,171,131	-	4,171,131	4,200,000	1,737,086	1,752,549
Certificates of Deposit	-	492,000	492,000	492,000	496,000	496,000
REIT	-	12,400	12,400	10,600	11,700	10,600
Insurance Policy	-	6,932	6,932	6,932	6,269	6,269
	<u>\$14,666,856</u>	<u>\$849,041</u>	<u>\$15,515,897</u>	<u>\$15,779,720</u>	<u>\$15,388,792</u>	<u>\$15,730,935</u>

Investments at October 31, 2005 and 2004 for each class of net assets were as follows:

	<u>Investment Held By</u>		<u>Total</u>	
	<u>TBF</u>	<u>Children's Homes</u>	<u>2005 (Market)</u>	<u>2004 (Market)</u>
Unrestricted	\$ 9,760,716	\$479,273	\$10,239,989	\$10,657,621
Temporarily restricted	2,892,384	227,952	3,120,336	3,154,015
Permanently restricted	<u>2,013,756</u>	<u>141,816</u>	<u>2,155,572</u>	<u>1,577,156</u>
	<u>\$14,666,856</u>	<u>\$849,041</u>	<u>\$15,515,897</u>	<u>\$15,388,792</u>

Interest and dividends earned on investments owned by the Children's Homes amounted to \$401,137 and \$319,958 for the years ended October 31, 2005 and 2004, respectively. This income represents yields of 2.7% and 1.9% based on the cost of such investments, and 2.7% and 2.0% based on the market of such investments for fiscal 2005 and 2004, respectively.

The total return (income yield plus investment gains and losses) on investments owned by the Children's Homes was 3.2% and 3.3% based on the cost of such investments, and 3.3% and 3.4% based on the market of such investments for fiscal years 2005 and 2004, respectively.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(with comparative totals for 2004)

B. INVESTMENTS - Continued

The Tennessee Baptist Foundation (the "Foundation") serves as the fiscal agent for certain investments in accordance with investment decisions made by the Children's Homes. The Foundation transfers the income from the investments to the Children's Homes.

C. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment at October 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 2,615,611	\$ 2,612,237
Buildings	12,324,237	12,319,751
Furnishings and equipment	1,298,662	1,266,934
Improvements other than buildings	929,230	933,717
Other machinery and equipment	646,639	642,639
Vehicles	1,078,545	1,092,935
Construction in progress (estimated cost to complete at October 31, 2005 - \$1,299,000)	<u>373,692</u>	<u>4,487</u>
Total plant facilities	19,266,616	18,872,700
Less accumulated depreciation	<u>( 9,712,825)</u>	<u>( 9,259,205)</u>
Net investment in plant	<u>\$ 9,553,791</u>	<u>\$ 9,613,495</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(with comparative totals for 2004)

D. NOTES RECEIVABLE

Notes receivable at October 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Note receivable from an unrelated party due in monthly installments of \$2,182 including interest at 8% through July 2006.	\$ 18,406	\$ 42,080
Note receivable from an unrelated party due in monthly installments of \$8,833 including interest at 5.25% (rate is equal to prime rate as published in the Wall Street Journal adjusted annually on note anniversary date) through November 2008.	279,354	362,912
Note receivable from an estate release and settlement agreement that was due in November 2006. The balance was paid in full in December 2004.	-	323,750
Note receivable - other	<u>1,100</u>	<u>2,450</u>
	<u>\$298,860</u>	<u>\$731,192</u>

Notes receivable are collateralized by deeds of trust or title liens. The maturities on notes receivable at October 31, 2005 are as follows:

<u>Year Ending October 31</u>	<u>Amount</u>
2006	\$106,923
2007	92,119
2008	97,073
2009	<u>2,745</u>
	<u>\$298,860</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(with comparative totals for 2004)

E. LEASES

The Children's Homes leases certain property on an annual basis with lease expense for fiscal 2005 and 2004 totaling \$3,324 and \$3,389, respectively.

F. 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 four active employees and will not be extended to future employees.

The net periodic postretirement benefit costs for health care recognized during the years ended October 31, 2005 and 2004, which are included in salaries and related benefits, are comprised of the following components:

	<u>2005</u>	<u>2004</u>
Service cost (benefits earned during the period)	\$29,891	\$ 55,132
Interest cost on accumulated postretirement benefit obligation	66,234	55,984
Amortization of unrecognized prior service cost	<u>-</u>	<u>( 201)</u>
	<u><u>\$96,125</u></u>	<u><u>\$ 110,915</u></u>

The net periodic postretirement benefit costs of \$96,125 and \$110,915 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2005 and 2004 respectively. The accrued postretirement benefit cost, which is unfunded at October 31, 2005 and 2004, was \$1,053,384 and \$994,305, respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2006.



TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(with comparative totals for 2004)

F. POSTRETIREMENT BENEFITS - Continued

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

	<u>2005</u>	<u>2004</u>
Healthcare costs	9.50%	9.50%
Future compensation levels	3.25%	3.25%
Discount rate	5.25%	6.25%

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>
2006	\$44,933	\$3,533	\$ 25,892	\$ 74,358
2007	46,889	3,353	3,465	53,707
2008	49,049	3,596	5,344	57,989
2009	51,145	4,017	-	55,162
2010	53,153	4,134	11,332	68,619
2011 - 2015	320,368	24,269	111,713	456,350

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

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, 2005 is as follows:

	<u>Health Care Cost</u> <u>Trend Rate</u>		
	<u>9.5%</u>	<u>10.5%</u>	<u>Increase</u>
Service cost	\$ 12,364	\$ 15,121	\$2,757
Interest cost	<u>53,891</u>	<u>60,332</u>	<u>6,441</u>
Net periodic postretirement health care benefit cost	<u>\$ 66,255</u>	<u>\$ 75,453</u>	<u>\$9,198</u>
Accumulated postretirement benefit obligation for health care benefits at October 31, 2005	<u>\$877,300</u>	<u>\$982,191</u>	<u>\$104,891</u>

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G. MINIMUM BENEFIT GUARANTEE

In 1974, the Board of Trustees agreed to provide certain designated employees a guaranteed minimum pension benefit upon retirement. The Children's Homes has established a reserve account with the Annuity Board of the Southern Baptist Convention to fund these minimum pension benefits. There is currently one retired employee who receives these supplements and no other employees are eligible for this minimum benefit guarantee. The balance in the reserve account at October 31, 2005 and 2004 was \$15,072 and \$14,669, respectively.

H. PENSION PLAN

The Children's Homes participates in the retirement program of the Annuity Board of the Southern Baptist Convention. 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 actuarial value of accumulated benefits is equal to or less than the accumulated value of the assets. There is no unfunded actuarial prior service or post service benefits, and no unfunded value of accrued plan benefits. Pension expense totaled \$220,049 and \$224,718 during the years ended October 31, 2005 and 2004, respectively. Pension cost is funded as accrued.

I. 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 \$21,365 and \$17,406 during the years ended October 31, 2005 and 2004, respectively. The related liability is included in accounts payable and accrued liabilities in the statement of financial position.

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J. CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Children's Homes to concentrations of credit risk, consist principally of cash and investments held by the Children's Homes and the Tennessee Baptist Foundation. Cash and cash equivalents at October 31, 2005 and 2004 include demand deposits at high credit quality 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 the Children's Homes investment objectives and policies of maintaining a variety of quality investments. Credit risk also extends to uncollateralized receivables.

K. UNRESTRICTED NET ASSETS

Investment in property contains the book value of fixed assets utilized in the Children's Home 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 TBCH 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.

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.

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L. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$1,792,368 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.

M. BENEFICIAL INTERESTS IN TRUSTS

Beneficial interests in trusts represent resources neither in the possession nor under the control of the Children's Homes, but held and administered by outside parties. These funds are recorded at their fair value. In addition, beneficial interests in trusts also include the residual values of certain trusts in which the Children's Homes hold funds as trustee and in accordance with the terms of the various trust instruments has an actual or potential interest. The fair value of these funds at October 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Residual trust		
Children's Homes as trustee	\$ 319,830	\$ 273,056
Held by outside trustees	<u>12,128</u>	<u>6,635</u>
Residual trust held by trustee	331,958	279,691
 Perpetual trusts held by trustees	 <u>9,931,347</u>	 <u>9,290,279</u>
 Beneficial interests in trusts	 <u>\$10,263,305</u>	 <u>\$9,569,970</u>

During 2005 and 2004, the Children's Homes received interest and dividends of \$341,731 and \$294,068, respectively, on funds held in trust.