

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

FINANCIAL STATEMENTS

OCTOBER 31, 2012

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, 2012, 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 fiscal 2011 financial statements and, in our report dated December 5, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Baptist Children's Homes, Inc., as of October 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crosslin & Associates, P.C.

December 19, 2012
Nashville, Tennessee

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

	<u>ASSETS</u>	
	October 31,	
	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 2,699,016	\$ 3,754,093
Investments (Note B)	8,561,267	8,315,405
Accrued income receivable	30,145	25,195
Prepaid expenses and other assets	358,549	287,358
Funds held in custody for children	83,161	86,782
Deposits held by others	309,379	323,264
Beneficial interests in trusts held by trustees (Note J)	12,844,502	12,428,810
Property, buildings and equipment, net (Note C)	<u>8,962,328</u>	<u>9,121,053</u>
Total assets	<u>\$33,848,347</u>	<u>\$34,341,960</u>
 <u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes D and F)	\$ 2,667,497	\$ 2,351,087
Funds held in custody for children	<u>83,161</u>	<u>86,782</u>
Total liabilities	<u>2,750,658</u>	<u>2,437,869</u>
 <u>NET ASSETS</u>		
Unrestricted (Note H):		
Invested in property	\$ 7,242,617	\$ 7,401,342
Designated for operating reserve	4,034,587	4,079,201
Designated for operations	104,719	94,551
Designated for East Tennessee	<u>1,379,208</u>	<u>1,379,208</u>
	<u>12,761,131</u>	<u>12,954,302</u>
Temporarily restricted:		
Program services	343,174	809,957
Property, building and equipment purchases	50,326	618,871
Invested in property	1,719,711	1,719,711
Residual trusts held by trustees (Note J)	<u>536,039</u>	<u>517,441</u>
	<u>2,649,250</u>	<u>3,665,980</u>
Permanently restricted:		
Endowment (Note L)	3,378,845	3,372,440
Perpetual trusts held by trustees (Notes J and L)	<u>12,308,463</u>	<u>11,911,369</u>
	<u>15,687,308</u>	<u>15,283,809</u>
Total net assets	<u>31,097,689</u>	<u>31,904,091</u>
Total liabilities and net assets	<u>\$33,848,347</u>	<u>\$34,341,960</u>

See accompanying notes to financial statements.

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

	Total	
	2011	2012
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,513,630	\$ 1,675,409
Contributions	3,135,430	3,239,846
Contributions of beneficial interests in trusts held by trustees	396,783	248,267
Fundraising events	110,373	138,890
Bequests	517,184	353,593
Income from trusts	456,694	432,727
Noncash gifts	267,023	147,303
Noncash gifts - fundraising events	8,471	21,437
Net assets released from restrictions (Note I)	-	-
Total support	<u>6,405,588</u>	<u>6,257,472</u>
Revenue:		
Investment income	111,326	87,877
Investment gains	14,934	227,593
Investment gains (losses) on funds held by trustees	(167,192)	175,559
Child support payments	26,429	15,810
Rental income	46,757	137,850
Other	<u>22,556</u>	<u>27,054</u>
Total revenue	<u>54,810</u>	<u>671,743</u>
Total support and revenue	<u>6,460,398</u>	<u>6,929,215</u>
Expenses:		
Program services	5,972,812	5,948,584
Supporting services	<u>1,654,759</u>	<u>1,787,033</u>
Total expenses	<u>7,627,571</u>	<u>7,735,617</u>
Total decrease in net assets	(1,167,173)	(806,402)
Net assets at beginning of year	<u>33,071,264</u>	<u>31,904,091</u>
Net assets at end of year	<u>\$ 31,904,091</u>	<u>\$ 31,097,689</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,675,409	\$ -	\$ -
3,192,890	43,256	3,700
-	6,626	241,641
-	138,890	-
351,323	2,270	-
397,513	32,508	2,706
-	147,303	-
-	21,437	-
<u>1,429,901</u>	<u>(1,429,901)</u>	<u>-</u>
<u>7,047,036</u>	<u>(1,037,611)</u>	<u>248,047</u>
87,103	774	-
227,593	-	-
-	20,107	155,452
15,810	-	-
137,850	-	-
<u>27,054</u>	<u>-</u>	<u>-</u>
<u>495,410</u>	<u>20,881</u>	<u>155,452</u>
<u>7,542,446</u>	<u>(1,016,730)</u>	<u>403,499</u>
5,948,584	-	-
<u>1,787,033</u>	<u>-</u>	<u>-</u>
<u>7,735,617</u>	<u>-</u>	<u>-</u>
(193,171)	(1,016,730)	403,499
<u>12,954,302</u>	<u>3,665,980</u>	<u>15,283,809</u>
<u>\$ 12,761,131</u>	<u>\$ 2,649,250</u>	<u>\$15,687,308</u>

See accompanying notes to financial statements.

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

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Decrease in net assets	\$(806,402)	\$(1,167,173)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Investment gains	(227,593)	(14,934)
Investment (gains) losses on funds held by trustees	(175,559)	167,192
Depreciation	641,847	661,417
Gifts in-kind	(2,000)	(63,056)
Increase in accrued income receivable	(4,950)	(4,525)
Increase in prepaid expenses and other assets	(71,191)	(41,324)
Decrease in property held for sale	-	25,649
Decrease (increase) in deposits held by others	13,885	(100,198)
Increase in beneficial interests in trusts	(248,267)	(396,782)
Increase in accounts payable and accrued liabilities	<u>316,410</u>	<u>256,464</u>
Net cash used in operating activities	<u>(563,820)</u>	<u>(677,270)</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	8,134	58,537
Purchases of property and equipment	(481,122)	(708,988)
Purchases of investments	(50,550)	(335,764)
Proceeds from sales of investments and property held for sale	<u>32,281</u>	<u>237,261</u>
Net cash used in investing activities	<u>(491,257)</u>	<u>(748,954)</u>
Net decrease in cash and cash equivalents	(1,055,077)	(1,426,224)
Cash and cash equivalents:		
Beginning of year	<u>3,754,093</u>	<u>5,180,317</u>
End of year	<u>\$ 2,699,016</u>	<u>\$ 3,754,093</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2012
(with comparative totals for 2011)

Total			Program Services
2011	2012		
\$2,659,988	\$2,605,742	Salaries	\$1,895,407
1,314,082	1,534,118	Retirement and group insurance	1,089,712
177,880	169,578	Social security	133,122
32,716	57,304	Workers' compensation insurance	43,049
<u>40,681</u>	<u>39,522</u>	Houseparent incentive pay	<u>39,522</u>
4,225,347	4,406,264	Total salaries and related benefits	3,200,812
14,367	14,632	Activities	14,632
31,388	29,870	Allowance and work program	29,870
24,382	19,179	Appreciation events	-
4,709	5,034	Background verification	4,708
11,200	13,902	Board meetings	-
29,986	44,155	Christmas and birthday gifts	44,155
44,464	51,178	Clothing	51,178
45,669	45,280	Cottage outings	45,280
16,982	16,417	Data communications	14,607
6,424	6,433	Dues and memberships	3,041
147,691	146,137	Education	146,137
90,986	64,306	Equipment	63,864
47,970	61,405	Event costs	-
498	300	Family ministries	300
15,269	19,177	Farm	19,177
334,426	324,632	Food	324,632
12,961	12,997	Foster homes	12,997
28,454	29,619	Household goods	29,619
167,876	187,222	Insurance	168,374
43,546	44,364	Lawn maintenance	44,364
444,864	332,345	Maintenance	321,509
27,013	18,577	Medical	18,577
4,180	9,081	Miscellaneous	3,893
105	2,146	Mother's aid	2,146
54,828	40,980	Office	22,669
11,310	10,632	Personal hygiene	10,632
47,402	49,007	Postage	11,095
68,509	69,523	Printing and publicity	-
26,110	48,035	Professional services - legal	23,112
31,300	44,471	Professional services - non legal	995
27,076	94,186	Public relations services	-
32,461	30,735	Recreation	30,735
13,123	9,797	Spiritual enrichment and training	6,844
61,962	63,075	Supplies	63,075
38,761	40,852	Taxes	40,852
57,680	59,319	Telephone	47,752
40,133	32,365	Technology	8,747
21,119	27,432	Travel	13,079
430,140	398,878	Utilities	389,632
120,523	121,687	Vehicle fuel	101,562
<u>62,960</u>	<u>48,144</u>	Vehicle maintenance and repair	<u>39,739</u>
6,966,154	7,093,770	Total expenses before depreciation	5,374,392
<u>661,417</u>	<u>641,847</u>	Depreciation of buildings and equipment	<u>574,192</u>
<u>\$7,627,571</u>	<u>\$7,735,617</u>	Total expenses	<u>\$5,948,584</u>
<u>100%</u>	<u>100%</u>	Percentages	<u>76.9%</u>

Supporting Services		
Management and General	Development	Total
\$ 541,531	\$168,804	\$ 710,335
381,774	62,632	444,406
31,175	5,281	36,456
10,745	3,510	14,255
-	-	-
965,225	240,227	1,205,452
-	-	-
-	-	-
-	19,179	19,179
326	-	326
13,902	-	13,902
-	-	-
-	-	-
-	-	-
604	1,206	1,810
2,471	921	3,392
-	-	-
442	-	442
-	61,405	61,405
-	-	-
-	-	-
-	-	-
-	-	-
16,619	2,229	18,848
-	-	-
7,188	3,648	10,836
-	-	-
4,647	541	5,188
-	-	-
13,202	5,109	18,311
-	-	-
2,368	35,544	37,912
-	69,523	69,523
24,923	-	24,923
4,800	38,676	43,476
-	94,186	94,186
-	-	-
2,678	275	2,953
-	-	-
-	-	-
7,572	3,995	11,567
15,362	8,256	23,618
10,078	4,275	14,353
4,960	4,286	9,246
14,862	5,263	20,125
6,150	2,255	8,405
1,118,379	600,999	1,719,378
61,118	6,537	67,655
<u>\$1,179,497</u>	<u>\$607,536</u>	<u>\$1,787,033</u>
<u>15.2%</u>	<u>7.9%</u>	<u>23.1%</u>

See accompanying notes to financial statements.

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

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, 2012
(with comparative totals for 2011)

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 2011 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 2012.

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, 2012
(with comparative totals for 2011)

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 \$946,469 and \$659,974 at October 31, 2012 and 2011, 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, 2012
(with comparative totals for 2011)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pledges

At October 31, 2012, 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, 2012 and 2011 were as follows:

	<u>Total 2012</u>		<u>Total 2011</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual Funds	\$5,102,542	\$4,722,166	\$4,875,989	\$4,704,383
Certificates of Deposit	3,447,026	3,442,000	3,428,203	3,442,000
Insurance Policy	<u>11,699</u>	<u>11,699</u>	<u>11,213</u>	<u>11,213</u>
	<u>\$8,561,267</u>	<u>\$8,175,865</u>	<u>\$8,315,405</u>	<u>\$8,157,596</u>

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

B. INVESTMENTS - Continued

Investments at October 31, 2012 and 2011 for each class of net assets were as follows:

	Total	
	2012	2011
Unrestricted	\$5,047,374	\$4,334,057
Temporarily restricted	123,726	618,871
Permanently restricted	<u>3,390,167</u>	<u>3,362,477</u>
	<u>\$8,561,267</u>	<u>\$8,315,405</u>

Interest and dividends earned on investments owned by the Children's Homes amounted to \$86,964 and \$95,178 for the years ended October 31, 2012 and 2011, respectively. This income represents yields of 1.1% and 1.7% based on the cost of such investments, and 1.0% and 1.3% based on the market of such investments for fiscal years 2012 and 2011, respectively.

The total return (income yield plus investment gains) on investments owned by the Children's Homes was a gain of 3.8% and 1.4% based on the cost of such investments, and a gain of 3.7% and 1.3% based on the market of such investments for fiscal years 2012 and 2011, respectively.

C. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment at October 31, 2012 and 2011 consisted of the following:

	2012	2011
Land	\$ 2,929,728	\$ 2,929,728
Buildings	14,100,297	13,647,055
Furnishings and equipment	1,478,810	1,474,740
Improvements other than buildings	1,385,410	1,374,755
Other machinery and equipment	726,823	716,250
Vehicles	933,920	929,338
Construction in progress (estimated cost to complete at October 31, 2012 - \$1,285,000)	<u>505,692</u>	<u>505,692</u>
	22,060,680	21,577,558
Less accumulated depreciation	<u>(13,098,352)</u>	<u>(12,456,505)</u>
Net investment in property, buildings and equipment	<u>\$ 8,962,328</u>	<u>\$ 9,121,053</u>

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

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, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,461,451	\$ 1,275,335
Service cost	27,009	37,667
Interest cost	63,061	61,208
Actual benefit disbursements	(53,950)	(57,010)
Change in assumptions	264,833	96,787
Actuarial loss	<u>10,379</u>	<u>47,464</u>
Benefit obligation at the end of year	<u>\$ 1,772,783</u>	<u>\$ 1,461,451</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	53,950	57,010
Actual benefit disbursements	<u>(53,950)</u>	<u>(57,010)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$1,772,783</u>	<u>\$1,461,451</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$1,772,783</u>	<u>\$1,461,451</u>

The net periodic postretirement benefit costs recognized during the years ended October 31, 2012 and 2011, which are included in salaries and related benefits, are comprised of the following components:

	<u>2012</u>	<u>2011</u>
Service cost (benefits earned during the period)	\$27,009	\$37,667
Interest cost on accumulated postretirement benefit obligation	<u>63,061</u> <u>\$90,070</u>	<u>61,208</u> <u>\$98,875</u>

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

D. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit costs of \$90,070 and \$98,875 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2012 and 2011, respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2013.

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

	<u>2012</u>	<u>2011</u>
Healthcare costs	8.50%	8.75%
Future compensation levels	3.00%	3.00%
Discount rate	3.40%	4.35%

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>
2013	\$ 64,842	\$ 4,740	\$32,726	\$102,308
2014	70,115	5,678	2,401	78,194
2015	79,177	6,024	55,838	141,039
2016	84,057	5,757	18,820	108,634
2017	88,914	5,924	17,073	111,911
2018 - 2022	417,270	34,112	81,703	533,085

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, 2012 is as follows:

	Health Care Cost Trend Rate		<u>Increase</u>
	<u>8.50%</u>	<u>9.50%</u>	
Service cost	\$14,537	\$16,886	\$2,349
Interest cost	<u>52,544</u>	<u>59,044</u>	<u>6,500</u>
Net periodic postretirement health care benefit cost	<u>\$67,081</u>	<u>\$75,930</u>	<u>\$8,849</u>
Accumulated postretirement benefit obligation for health care benefits at October 31, 2012	<u>\$1,481,538</u>	<u>\$1,664,595</u>	<u>\$183,057</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 \$238,691 and \$262,520 during the years ended October 31, 2012 and 2011, 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 \$30,236 and \$27,793 during the years ended October 31, 2012 and 2011, 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, 2012 and 2011 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 \$1,429,901 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, 2012 and 2011 the fair values are as follows:

	<u>2012</u>	<u>2011</u>
Residual trusts:		
Children's Homes as trustee	\$ 419,162	\$ 399,057
Held by outside trustees	<u>116,877</u>	<u>118,384</u>
Total residual trusts	536,039	517,441
Perpetual trusts held by outside trustees:		
Tennessee Baptist Foundation as trustee	8,321,406	8,080,236
Other trustees	<u>3,987,057</u>	<u>3,831,133</u>
Total perpetual trusts held by outside trustees	12,308,463	11,911,369
Total beneficial interests in trusts held by trustees	<u>\$12,844,502</u>	<u>\$12,428,810</u>

During 2012 and 2011, the Children's Homes received interest and dividends of \$432,727 and \$456,694, 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, 2012 and 2011 for the assets and liabilities measured at fair value on a recurring basis:

<u>October 31, 2012</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	\$ 5,102,542	\$5,102,542	\$ -	\$ -
Certificates of deposit	3,447,026	3,447,026	-	-
Insurance policy	<u>11,699</u>	<u>-</u>	<u>-</u>	<u>11,699</u>
	8,561,267	8,549,568	-	11,699
Beneficial interests	12,844,502	-	12,844,502	-
<u>October 31, 2011</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.

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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, 2012

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$6,557	\$ 3,378,845	\$ 3,385,402
Perpetual trusts held by trustees	<u>-</u>	<u>12,308,463</u>	<u>12,308,463</u>
Total funds	<u>\$6,557</u>	<u>\$15,687,308</u>	<u>\$15,693,865</u>

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>

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L. ENDOWMENT FUNDS - Continued

Changes in Endowment Net Assets for the years ended October 31, 2012 and 2011

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Endowment net assets, October 31, 2010</i>	\$ 7,203	\$ 14,954,551	\$ 14,961,754
Investment return:			
Investment income	44,815	-	44,815
Net appreciation (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, October 31, 2011</i>	<u>(21,132)</u>	<u>15,283,809</u>	<u>15,262,677</u>
Investment return:			
Investment income	34,924	-	34,924
Net depreciation (realized and unrealized)	<u>27,689</u>	<u>155,452</u>	<u>183,141</u>
Total investment return	<u>62,613</u>	<u>155,452</u>	<u>218,065</u>
Contributions	<u>-</u>	<u>248,047</u>	<u>248,047</u>
Appropriation of endowment assets for expenditure	<u>(34,924)</u>	<u>-</u>	<u>(34,924)</u>
<i>Endowment net assets, October 31, 2012</i>	<u>\$ 6,557</u>	<u>\$ 15,687,308</u>	<u>\$ 15,693,865</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 19, 2012, the issuance date of the financial statements, and has determined that there are no subsequent events requiring disclosure.