

**TENNESSEE BAPTIST  
ADULT HOMES, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**OCTOBER 31, 2007**

TENNESSEE BAPTIST ADULT HOMES, INC.

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Independent Auditors' Report

The Board of Trustees  
Tennessee Baptist Adult Homes, Inc.  
Brentwood, Tennessee

We have audited the accompanying statement of financial position of Tennessee Baptist Adult Homes, Inc., ("Adult Homes") as of October 31, 2007, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Adult Homes' 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 Adult Homes, Inc., as of October 31, 2007, 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.

As described in Note I to the financial statements, Adult Homes adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans*, which changed its method of accounting for postretirement benefits effective for the year ended October 31, 2007.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary financial information on pages 20 - 22 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

December 6, 2007  
Nashville, Tennessee

TENNESSEE BAPTIST ADULT HOMES, INC.  
STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2007  
(with comparative totals for 2006)

<u>ASSETS</u>		
	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 732,303	\$ 798,243
Cash escrow - Williams Ferry Pointe (Note F)	35,081	16,065
Investments held by the Tennessee Baptist Foundation (Note B)	526,838	425,256
Receivables:		
Patient receivables	3,570	258,861
Accounts and notes receivable - other	44,610	58,800
Contributions receivable, net (Note C)	<u>6,291</u>	<u>7,291</u>
Total receivables	<u>54,471</u>	<u>324,952</u>
Inventories	13,020	11,878
Prepaid expense	57,544	22,334
Land, building and equipment at cost, net (Notes D and E)	4,686,171	4,731,705
Beneficial interest in trusts held by others (Note M)	742,514	716,891
Other assets	<u>30</u>	<u>30</u>
Total assets	<u>\$6,847,972</u>	<u>\$7,047,354</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable and accrued liabilities	\$ 316,344	\$ 325,605
Deferred revenue (Note F)	62,710	32,127
Postretirement benefit liability (Note I)	126,517	320,043
Notes payable (Note E)	<u>91,103</u>	<u>188,149</u>
Total liabilities	<u>596,674</u>	<u>865,924</u>
Net assets:		
Unrestricted		
Board designated	239,611	211,983
Undesignated	<u>4,971,994</u>	<u>5,028,474</u>
	5,211,605	5,240,457
Temporarily restricted (Note N)	88,279	89,095
Permanently restricted (Note N)	<u>951,414</u>	<u>851,878</u>
Total net assets	<u>6,251,298</u>	<u>6,181,430</u>
Total liabilities and net assets	<u>\$6,847,972</u>	<u>\$7,047,354</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2007  
(with comparative totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Support and Revenue:			
Patient service revenue, net of allowances and contractual adjustments (Note H)	\$5,352,702	\$ -	\$ -
Allocations from the cooperative program of Tennessee Baptist Convention	255,107	-	-
Contributions and gifts	300,024	77,695	72,046
Investment income and gains	71,473	1,120	27,490
Management fees - Deer Lake Retirement Village	4,860	-	-
Rental income - Baptist Village of Johnson City	11,430	-	-
Stoneway revenue	214,464	-	-
Rainbow revenue	116,692	-	-
Scotts Hill revenue (Note D)	-	-	-
Knoxville revenue	226,849	-	-
Lake Park revenue	126,552	-	-
Daycare revenue	137,732	-	-
Other operating revenue	51,484	-	-
Net assets released from restrictions (Note O)	<u>79,631</u>	<u>(79,631)</u>	<u>-</u>
Total support and revenue	<u>6,949,000</u>	<u>( 816)</u>	<u>99,536</u>
Expenses:			
Program Services:			
Stoneway expense	286,870	-	-
Rainbow expense	236,647	-	-
Scotts Hill expense	8,807	-	-
Knoxville expense	258,273	-	-
Special Friend expense	126,886	-	-
Lake Park expense	127,142	-	-
Nursing services	3,269,451	-	-
Housekeeping services	296,791	-	-
Dietary services	686,123	-	-
Maintenance services	254,980	-	-

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Total	
2007	2006
55,352,702	\$ 5,253,313
255,107	264,750
449,765	1,286,166
100,083	63,631
4,860	4,860
11,430	15,800
214,464	190,897
116,692	118,256
-	39,805
226,849	247,648
126,552	116,695
137,732	170,027
51,484	43,207
-	-
<u>7,047,720</u>	<u>7,815,055</u>

286,870	276,150
236,647	232,115
8,807	89,993
258,273	261,660
126,886	124,819
127,142	130,604
3,269,451	3,094,232
296,791	282,597
686,123	659,049
254,980	248,546

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.  
STATEMENT OF ACTIVITIES - Continued  
YEAR ENDED OCTOBER 31, 2007  
(with comparative totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Special services	\$ 326,981	\$ -	\$ -
Depreciation expense	236,995	-	-
Interest expense	<u>7,986</u>	<u>-</u>	<u>-</u>
Total program services	6,123,932	-	-
General and administrative	<u>1,038,127</u>	<u>-</u>	<u>-</u>
Total expenses	<u>7,162,059</u>	<u>-</u>	<u>-</u>
(Decrease) increase in net assets before effect of adoption of SFAS No. 158	( 213,059)	( 816)	99,536
Effect of adoption of SFAS No. 158 (Note I)	<u>184,207</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in net assets	( 28,852)	( 816)	99,536
Net assets at beginning of year	<u>5,240,457</u>	<u>89,095</u>	<u>851,878</u>
Net assets at end of year	<u>\$ 5,211,605</u>	<u>\$ 88,279</u>	<u>\$951,414</u>

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Total	
2007	2006
\$ 326,981	\$ 313,490
236,995	243,470
7,986	10,266
6,123,932	5,966,991
<u>1,038,127</u>	<u>872,433</u>
<u>7,162,059</u>	<u>6,839,424</u>
( 114,339)	975,631
<u>184,207</u>	<u>-</u>
69,868	975,631
<u>6,181,430</u>	<u>5,205,799</u>
<u>\$ 6,251,298</u>	<u>\$ 6,181,430</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED OCTOBER 31, 2007  
(with comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Increase in net assets	\$ 69,868	\$ 975,631
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	236,995	243,470
Loss on disposal of property and equipment	-	1,621
Net gains on investments and beneficial interests in trusts	( 36,554)	( 16,301)
Effect of adoption of SFAS No. 158	(184,207)	-
In-kind contributions	-	(710,000)
Gifts restricted for long-term investment	( 72,046)	( 87,500)
Decrease (increase) in receivables	270,481	( 3,211)
(Increase) decrease in prepaid expense and other assets	( 35,210)	8,990
Increase in inventories	( 1,142)	( 4,560)
(Decrease) increase in accounts payable and accrued liabilities	( 9,261)	15,607
Increase in deferred revenue, net	11,567	6,711
(Decrease) increase in postretirement benefit liability	( 9,319)	12,309
Net cash provided by operating activities	<u>241,172</u>	<u>442,767</u>
Cash flows from investing activities:		
Purchases of property and equipment	(191,461)	( 57,129)
Advances to related party (Deer Lake)	-	( 12,000)
Payments received on note receivable	-	175,000
Net (purchases) sales of investments	<u>( 90,651)</u>	<u>( 93,446)</u>
Net cash (used in) provided by investing activities	<u>(282,112)</u>	<u>12,425</u>
Cash flows from financing activities:		
Gifts restricted for long-term investment	72,046	87,500
Payments on notes payable	<u>( 97,046)</u>	<u>(195,405)</u>
Net cash used in financing activities	<u>( 25,000)</u>	<u>(107,905)</u>
Net (decrease) increase in cash	<u>( 65,940)</u>	<u>347,287</u>
Cash and cash equivalents at beginning of year	<u>798,243</u>	<u>450,956</u>
Cash and cash equivalents at end of year	<u>\$ 732,303</u>	<u>\$ 798,243</u>
Additional information:		
Interest paid	<u>\$ 7,986</u>	<u>\$ 10,266</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED OCTOBER 31, 2007  
(with comparative totals for 2006)

	Program Services	General and Administrative	Total	
			2007	2006
Salaries	\$3,589,613	\$404,272	\$3,993,885	\$3,771,168
Employee benefits	<u>552,420</u>	<u>149,716</u>	<u>702,136</u>	<u>660,152</u>
Total salaries and related benefits	<u>4,142,033</u>	<u>553,988</u>	<u>4,696,021</u>	<u>4,431,320</u>
Advertising, marketing and recruitment	-	193,774	193,774	139,107
Bed taxes and licenses	237,453	-	237,453	237,228
Depreciation	236,995	-	236,995	243,171
Food supplies	434,292	-	434,292	423,259
Freight	6,272	-	6,272	6,301
Insurance	247,305	16,835	264,140	326,376
Interest	7,986	-	7,986	10,265
Laundry	81,472	-	81,472	74,250
Maintenance and repairs	26,844	-	26,844	17,095
Memberships, dues and subscriptions	-	12,556	12,556	12,681
Miscellaneous	-	100,309	100,309	70,517
Professional and consulting services	5,900	4,873	10,773	13,571
Property taxes	18,359	8,978	27,337	20,200
Purchased services	11,702	66,663	78,365	72,853
Resident activities	5,596	233	5,829	7,772
Resident allowances	15,698	-	15,698	13,629
Special friends camps	59,266	-	59,266	54,696
Supplies	308,164	17,855	326,019	337,845
Training	17,985	217	18,202	14,692
Travel and auto	39,116	30,140	69,256	67,552
Uniforms	4,333	-	4,333	1,911
Utilities	<u>217,161</u>	<u>31,706</u>	<u>248,867</u>	<u>243,132</u>
Total Expenses	<u>\$6,123,932</u>	<u>\$1,038,127</u>	<u>\$7,162,059</u>	<u>\$6,839,424</u>
Percentages	<u>85.50%</u>	<u>14.50%</u>	<u>100.00%</u>	<u>100.00%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Tennessee Baptist Adult Homes, Inc., ("Adult Homes") operates under the auspices of the Tennessee Baptist Convention. Its purpose, generally, is to provide specially designed housing facilities and services to the elderly and/or developmentally disabled.

Adult Homes' principal revenue sources, in addition to support from the Tennessee Baptist Convention, consist of operating an intermediate nursing care, assisted living and day care facility (Baptist Health Care Center) in Lenoir City, Tennessee; and adult group homes in Jackshoro/Knoxville, Lebanon, and Hermitage, Tennessee (Rainbow Acres, Stoneway Acres, and Lake Park Home). In addition, Adult Homes receives management fees from Deer Lake Retirement Village and the Baptist Health Care Center, rental income from elderly housing at the Baptist Village of Johnson City, and fees under sponsorship agreements (See Note G). The Adult Homes is currently in the planning and development stages for the construction of an adult independent living community, Williams Ferry Pointe, located in Lenoir City.

Accrual Basis and Financial Statement Presentation

The financial statements of Adult Homes have been prepared on the accrual basis of accounting.

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

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

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

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

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

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Financial Statements

The financial information shown for fiscal year 2006 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 2007.

Contributions

Adult Homes reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

Inventories

Inventories consist principally of dietary items and general supplies of Baptist Health Care Center and are priced at lower of cost or market (first-in, first-out method).

Land, Buildings and Equipment

Land, buildings, improvements, furniture, equipment and vehicles, are stated in the accompanying statement of financial position at cost, or if contributed, at fair value at date of gift. It is the Adult Home's policy to capitalize expenditures for these items in excess of \$500.

Depreciation of buildings, furniture and equipment is provided over the estimated useful lives of the respective assets using the straight-line method.

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

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

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 more significant areas include the collectibility of receivables, the recovery period for property, buildings and equipment and the determination of the post-retirement benefit liability. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

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. The carrying values of other liabilities and long-term debt are not materially different from the estimated fair values of these instruments.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Adult Homes considers all cash and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Adult Homes maintains cash balances in financial institutions that it considers to be high quality financial institutions.

Investments

Adult Homes is required to report investments at fair value with gains and losses included in the statement of activities.

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions Receivable

Contributions receivable are recorded at their estimated fair value and reflect discounts for payment terms greater than one year. Under the provisions of SFAS No. 116, contributions receivable are considered to be either conditional or unconditional promises to give. A conditional contribution is one which depends on the occurrence of some specified uncertain future event to become binding on the donor. Conditional contributions are not recorded as revenue until the condition is met, at which time they become unconditional. Unconditional contributions are recorded as revenue at the time verifiable evidence of the pledge is received.

B. INVESTMENTS HELD BY THE TENNESSEE BAPTIST FOUNDATION

Investments at October 31, 2007 and 2006 are summarized as follows:

	<u>Total 2007</u>		<u>Total 2006</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual funds	\$268,033	\$245,009	\$243,036	\$239,213
Bonds and notes	244,022	247,808	166,521	171,000
Stock	<u>14,783</u>	<u>15,000</u>	<u>15,699</u>	<u>16,000</u>
	<u>\$526,838</u>	<u>\$507,817</u>	<u>\$425,256</u>	<u>\$426,213</u>

Investments at October 31, 2007 and 2006 for each class of net assets were as follows:

	<u>Total</u>	
	<u>2007</u>	<u>2006</u>
	<u>Market</u>	<u>Market</u>
Unrestricted	\$235,087	\$208,164
Temporarily restricted	24,118	24,704
Permanently restricted	<u>266,633</u>	<u>192,088</u>
	<u>\$526,838</u>	<u>\$425,256</u>

Income and gains on investments owned by Adult Homes and beneficial interests in trusts held by others amounted to \$100,083 and \$63,631 for the years ended October 31, 2007 and 2006, respectively. This income and gains represent a yield of 8.3% and 5.9% based on the average market of such investments and beneficial interests in trusts held by others for fiscal 2007 and 2006, respectively.

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

C. CONTRIBUTIONS RECEIVABLE

Contributions receivable at October 31 consisted of the following:

	<u>2007</u>	<u>2006</u>
Contributions receivable	\$ 71,910	\$ 72,910
Less allowance for uncollectible contributions receivable	<u>(65,619)</u>	<u>(65,519)</u>
	<u>\$ 6,291</u>	<u>\$ 7,291</u>

Expected maturities of contributions receivable at October 31, 2007 are as follows:

<u>Year ended October</u>	<u>Amount</u>
2008	<u>\$6,291</u>

D. LAND, BUILDINGS AND EQUIPMENT

A summary of the major classifications of land, buildings and equipment and accumulated depreciation is as follows:

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 1,208,050	\$ 1,208,050
Buildings	5,688,329	5,679,258
Building improvements	631,218	673,832
Leasehold improvements	2,185	2,185
Furniture, equipment and automotive equipment	1,095,123	1,178,038
Construction in progress	<u>360,063</u>	<u>230,067</u>
	8,984,968	8,971,430
Less accumulated depreciation	<u>(4,298,797)</u>	<u>(4,239,725)</u>
	<u>\$ 4,686,171</u>	<u>\$ 4,731,705</u>

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

D. LAND, BUILDINGS AND EQUIPMENT - Continued

Fully depreciated assets with a cost of \$1,675,961 were still in use at October 31, 2007.

During fiscal 2006, the Scott's Hill facility was closed and placed on the market for sale. As of October 31, 2007 the property remains held for sale. The book value of \$138,197 approximates fair value as of October 31, 2007.

The construction in progress reported by Adult Homes is composed primarily of architectural and engineering costs and site preparation related to the construction of Williams Ferry Pointe, a senior independent living project. Construction on the project has not commenced as the result of a sewer moratorium imposed by Lenoir City in August 2006, limiting major infrastructure additions to the City's sewer system for a period of 12 to 18 months. The Executive Committee of the Adult Homes approved and construction has commenced on two model homes during fiscal 2007 for viewing purposes. When the moratorium is lifted, it is anticipated that construction on the project will commence.

E. NOTES PAYABLE

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

	<u>2007</u>	<u>2006</u>
Note payable to bank, due in monthly payments of \$1,248, including interest at 4.5%, through August 2008, collateralized by a deed of trust on certain property. The note was repaid during fiscal 2007.	\$ -	\$ 87,762
Note payable to a bank, payable in monthly installments of \$1,308 including interest at 5.5% through September 2009, at which time all outstanding principal and interest is due. The note is collateralized by a deed of trust on certain property.	91,103	100,387

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

E. NOTES PAYABLE - Continued

	<u>2007</u>	<u>2006</u>
Note payable to bank under a \$200,000 revolving line-of-credit. Interest is payable monthly at a variable interest rate through April 2008 at which time all outstanding interest and principal is due. Available borrowings at October 31, 2007 were \$200,000. The line-of-credit is unsecured.	-	-
	<u>\$91,103</u>	<u>\$188,149</u>

Maturities of the notes payable are as follows:

<u>Year Ending October 31,</u>	<u>Amount</u>
2008	\$10,894
2009	<u>80,209</u>
	<u>\$91,103</u>

Adult Homes also has entered into a construction loan agreement with a maximum available borrowing of \$350,000. Interest at 8.4% on the outstanding balance is paid monthly. All outstanding principal and interest is due June 8, 2008. The note is collateralized by a deed of trust on certain property. There were no amounts due under the loan at October 31, 2007.

F. DEFERRED REVENUE

The Adult Homes is currently collecting membership and lease agreement fees from future residents of the Williams Ferry Pointe adult independent living community.

Membership fees represent a one time fee paid by each future resident of the community in the amount of \$2,000. As of October 31, 2007 and 2006, Adult Homes reported as deferred revenue, membership fees in the amount of \$8,000 and \$4,000, respectively.

Lease agreement fees represent a one time fee made by each future home owner for the lease of land on which each home will be constructed. The fee is earned by the Adult Homes over a four year period. A pro-rata refund is available to home owners who leave the community prior to the end of the four year period. As of October 31, 2007 and 2006, Adult Homes reported as deferred revenue, lease agreement fees in the amount of \$27,000 and \$12,000, respectively.

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

F. DEFERRED REVENUE - Continued

As of October 31, 2007, construction of Williams Ferry Pointe has not commenced, therefore all fees are refundable and have not been earned by Adult Homes.

Deferred revenue also includes certain fees totaling \$27,710 and \$16,127 collected from residents of Adult Homes facilities for services not yet provided as of October 31, 2007 and 2006, respectively.

G. SPONSORSHIP AGREEMENTS

Deer Lake Retirement Community

Adult Homes sponsors the Deer Lake Retirement Community. Additionally, its responsibility includes appointing certain directors to the Deer Lake Retirement Association Board of Directors and ministering to the homeowners. The President/Treasurer of Adult Homes is also the President of the Homeowners Association and, in this capacity, manages financial activities of the Homeowners Association. Adult Homes receives \$405 per month from the Homeowners Association for reimbursement of financial and other office services, including the bookkeeping function.

The Homeowners Association of Deer Lake is not considered an affiliated entity of Adult Homes and, accordingly, its accounts are not included in the accompanying financial statements.

H. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2007</u>	<u>2006</u>
Patient service revenue	\$ 5,471,273	\$ 5,459,435
Less contractual adjustments	<u>( 118,571)</u>	<u>( 206,122)</u>
	<u>\$ 5,352,702</u>	<u>\$ 5,253,313</u>

Approximately 48% and 52% of patient revenue is from Medicaid for the years ended October 31, 2007 and 2006, respectively.

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

I. POSTRETIREMENT BENEFITS

Tennessee Baptist Adult Homes, Inc., offers postretirement health care benefits, dependent health care benefits on a shared cost basis, and life insurance to its employees provided they remain employed until retirement.

Effective for the year ended October 31, 2007, Adult Homes adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires Adult Homes to now recognize in its statement of financial position the over-funded or under-funded status of the postretirement benefits plan. Under the provisions of the statement, actuarial and experience gains and losses and unrecognized prior service costs which were deferred over the remaining service period under SFAS 106, are required to be recognized on the statement of financial position and as a separate item on the statement of activities.

The adoption of the statement resulted in a decrease in the postretirement benefits liability and an increase in the change in unrestricted net assets of \$184,207 for the year ended October 31, 2007. The status of the plan at October 31, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 120,100	\$ 113,392
Service cost	4,898	4,237
Interest cost	7,926	7,944
(Gain) loss due to plan experience	( 191)	743
Actual benefit disbursements	<u>( 6,216)</u>	<u>( 6,216)</u>
Benefit obligation at the end of year	<u>\$ 126,517</u>	<u>\$ 120,100</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	6,216	6,216
Actual benefit disbursements	<u>( 6,216)</u>	<u>( 6,216)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	\$126,517	\$120,100
Unrecognized actuarial gain (before SFAS 158)	<u>N/A</u>	<u>199,943</u>
Net postretirement benefit liability recognized in statements of financial position	<u>\$126,517</u>	<u>\$320,043</u>

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

I. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit cost recognized during each of the years ended October 31, 2007 and 2006 was \$12,633 and \$12,924, respectively.

The accumulated postretirement benefit obligation and the net periodic postretirement benefit cost recognized were determined using assumed annual increases in health care costs of 8% and 9% for fiscal 2007 and 2006, respectively, and future compensation levels of 5%. In addition, a discount rate of 6.50% and 7.25% was assumed for fiscal 2007 and 2006, respectively.

At October 31, 2007, Adult Homes assets with a fair value totaling \$53,766 have been designated to fund the obligation.

J. RETIREMENT PLAN

Adult Homes and the Baptist Health Care Center participate in the retirement program of GuideStone Financial Resources of the Southern Baptist Convention. The plans are defined contribution plans that cover substantially all full-time employees. Adult Homes contributes an amount equal to 11% of the participants' compensation for administrative division employees. For the non-administrative division, employee contributions of up to 6% are matched by Adult Homes. The Baptist Health Care Center provides a contribution-matching program to its employees. Pension expense for the years ended October 31, 2007 and 2006, was \$49,220 and \$44,638, respectively.

K. RELATED PARTY TRANSACTIONS

Adult Homes occupies office space in the Tennessee Baptist Convention building in Brentwood, Tennessee. Adult Homes pays the Convention an annual use charge for the facilities which amounted to \$16,797 and \$22,343 for 2007 and 2006, respectively.

L. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject Adult Homes to concentrations of credit risk consist principally of cash and investments held by Adult Homes and the Tennessee Baptist Foundation. Cash at October 31, 2007 includes demand deposits at high 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 Adult Homes' investment objectives and policies of maintaining a variety of quality investments. Credit risk also extends to uncollateralized receivables, net of allowances.

TENNESSEE BAPTIST ADULT HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(with comparative totals for 2006)

M. BENEFICIAL INTERESTS IN TRUSTS HELD BY OTHERS

Beneficial interest in trusts held by others were \$742,514 and \$716,891 at October 31, 2007 and 2006, respectfully. These funds name Adult Homes as a beneficiary and are held by the Tennessee Baptist Foundation.

N. NET ASSETS

Temporarily restricted net assets at October 31, 2007 and 2006 are available for program services. Permanently restricted net assets at October 31, 2007 and 2006 consist of endowment funds and Adult Home's beneficial interest in perpetual trusts held by others.

O. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$79,631 and \$81,528 for fiscal 2007 and 2006, respectively, were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. The purpose restrictions accomplished were for program services.

P. FUND RAISING AND ADVERTISING COSTS

The Adult Homes expenses the cost of fund raising and advertising as incurred. These costs for the year ended October 31, 2007 and 2006 were \$63,031 and \$70,885, respectively.

## SUPPLEMENTARY INFORMATION

TENNESSEE BAPTIST ADULT HOMES, INC.  
COMBINING SCHEDULE - STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2007

ASSETS

	Tennessee Baptist Adult Homes	Baptist Health Care Center (A Division) of TBAHJ	Eliminations	Total
Cash and cash equivalents	\$ 106,304	\$ 625,999	\$ -	\$ 732,303
Cash escrow - Williams Ferry Pointe	-	35,081	-	35,081
Investments held by Tennessee Baptist Foundation	526,838	-	-	526,838
Receivables:				
Patient receivables	-	3,570	-	3,570
Accounts and notes receivable - other	44,610	-	-	44,610
Contributions receivable, net	6,291	-	-	6,291
Total receivables	<u>50,901</u>	<u>3,570</u>	<u>-</u>	<u>54,471</u>
Inventories	-	13,020	-	13,020
Prepaid expense	27,647	29,897	-	57,544
Land, building and equipment at cost, net of accumulated depreciation	2,191,936	2,494,235	-	4,686,171
Beneficial interest in trusts held by others	742,514	-	-	742,514
Other assets	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
Total assets	<u>\$3,646,140</u>	<u>\$3,201,832</u>	<u>\$ -</u>	<u>\$6,847,972</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 32,771	\$ 283,573	\$ -	\$ 316,344
Deferred revenue	5,724	56,986	-	62,710
Accumulated postretirement benefit obligation	126,517	-	-	126,517
Notes payable	-	91,103	-	91,103
Total liabilities	<u>165,012</u>	<u>431,662</u>	<u>-</u>	<u>596,674</u>
Net assets:				
Unrestricted:				
Board designated	239,611	-	-	239,611
Undesignated	<u>2,201,824</u>	<u>2,770,170</u>	<u>-</u>	<u>4,971,994</u>
	2,441,435	2,770,170	-	5,211,605
Temporarily restricted	88,279	-	-	88,279
Permanently restricted	<u>951,414</u>	<u>-</u>	<u>-</u>	<u>951,414</u>
Total net assets	<u>3,481,128</u>	<u>2,770,170</u>	<u>-</u>	<u>6,251,298</u>
Total liabilities and net assets	<u>\$3,646,140</u>	<u>\$3,201,832</u>	<u>\$ -</u>	<u>\$6,847,972</u>

See accompanying independent auditors' report.

TENNESSEE BAPTIST ADULT HOMES, INC.  
COMBINING SCHEDULE - STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2007

	Tennessee Baptist Adult Homes	Baptist Health Care Center (A Division of TBAH)	Eliminations	Total
Support and Revenue:				
Patient service revenue, net of allowances and contractual adjustments	\$ -	\$5,352,702	\$ -	\$ 5,352,702
Allocations from the cooperative program of Tennessee Baptist Convention	255,107	-	-	255,107
Contributions and gifts	446,470	3,295	-	449,765
Investment income and gains	100,083	-	-	100,083
Management and other fees - Baptist Health Care Center	60,000	-	(60,000)	-
Management fees - Deer Lake Retirement Village	4,860	-	-	4,860
Rental income - Baptist Village of Johnson City	11,430	-	-	11,430
Stoneway revenue	214,464	-	-	214,464
Rainbow revenue	116,692	-	-	116,692
Scotts Hill revenue	-	-	-	-
Knoxville revenue	226,849	-	-	226,849
Lake Park revenue	126,552	-	-	126,552
Daycare revenue	-	137,732	-	137,732
Other operating revenue	-	51,484	-	51,484
Total support and revenue	<u>1,562,507</u>	<u>5,545,212</u>	<u>(60,000)</u>	<u>7,047,720</u>
Expenses:				
Program Services:				
Stoneway expense	286,870	-	-	286,870
Rainbow expense	236,647	-	-	236,647
Scotts Hill expense	8,807	-	-	8,807
Knoxville expense	258,273	-	-	258,273
Special Friend expense	126,886	-	-	126,886
Lake Park expense	127,142	-	-	127,142
Nursing services	-	3,269,451	-	3,269,451
Housekeeping services	-	296,791	-	296,791
Dietary services	-	686,123	-	686,123

TENNESSEE BAPTIST ADULT HOMES, INC.  
COMBINING SCHEDULE - STATEMENT OF ACTIVITIES - Continued  
YEAR ENDED OCTOBER 31, 2007

	Tennessee Baptist Adult Homes	Baptist Health Care Center (A Division of TBAH)	Eliminations	Total
Maintenance services	-	254,980	-	254,980
Special services	-	326,981	-	326,981
Depreciation	122,643	114,352	-	236,995
Interest expense	-	7,986	-	7,986
Total program services	1,167,268	4,956,664	-	6,123,932
General and administrative	399,345	698,782	(60,000)	1,038,127
Total expenses	<u>1,566,613</u>	<u>5,655,446</u>	<u>(60,000)</u>	<u>7,162,059</u>
Decrease in net assets before effect of adoption of SFAS No. 158	( 4,106)	( 110,233)	-	( 114,339)
Effect of adoption of SFAS No. 158	<u>184,207</u>	<u>-</u>	<u>-</u>	<u>184,207</u>
Net increase (decrease) in net assets	180,101	( 110,233)	-	69,868
Net assets at beginning of year	<u>3,301,027</u>	<u>2,880,403</u>	<u>-</u>	<u>6,181,430</u>
Net assets at end of year	<u>\$ 3,481,128</u>	<u>\$ 2,770,170</u>	<u>\$ -</u>	<u>\$ 6,251,298</u>

See accompanying independent auditors' report.

