

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

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2013**

TENNESSEE BAPTIST CHILDREN’S HOMES, INC.

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## Independent Auditor's Report

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of Tennessee Baptist Children's Homes, Inc. (a nonprofit organization), which comprise the statement of financial position as of October 31, 2013, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Baptist Children's Homes, Inc. as of October 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the Tennessee Baptist Children's Homes, Inc.'s 2012 financial statements, and our report dated December 19, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Crosslin + Associates, P.C.*

Nashville, Tennessee  
December 9, 2013

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2013  
(with comparative totals for 2012)

	<u>ASSETS</u>	
	October 31,	
	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 1,995,394	\$ 2,699,016
Investments (Note B)	9,264,645	8,561,267
Accrued income receivable	6,891	30,145
Prepaid expenses and other assets	371,671	358,549
Funds held in custody for children	110,320	83,161
Deposits held by others	330,484	309,379
Beneficial interests in trusts held by trustees (Note J)	15,600,097	12,844,502
Property, buildings and equipment, net (Note C)	<u>8,452,075</u>	<u>8,962,328</u>
Total assets	<u>\$36,131,577</u>	<u>\$33,848,347</u>
 <u>LIABILITIES</u>		
Accounts payable and accrued liabilities (Notes D and F)	\$ 2,505,800	\$ 2,667,497
Funds held in custody for children	<u>110,320</u>	<u>83,161</u>
Total liabilities	<u>2,616,120</u>	<u>2,750,658</u>
 <u>NET ASSETS</u>		
Unrestricted (Note H):		
Invested in property	\$ 6,732,364	\$ 7,242,617
Designated for operating reserve	4,263,028	4,034,587
Designated for operations	148,388	104,719
Designated for East Tennessee	<u>1,379,208</u>	<u>1,379,208</u>
	<u>12,522,988</u>	<u>12,761,131</u>
Temporarily restricted:		
Program services	149,934	343,174
Property, building and equipment purchases	115,225	50,326
Invested in property	1,719,711	1,719,711
Residual trusts held by trustees (Note J)	<u>514,215</u>	<u>536,039</u>
	<u>2,499,085</u>	<u>2,649,250</u>
Permanently restricted:		
Endowment (Note L)	3,407,502	3,378,845
Perpetual trusts held by trustees (Notes J and L)	<u>15,085,882</u>	<u>12,308,463</u>
	<u>18,493,384</u>	<u>15,687,308</u>
Total net assets	<u>33,515,457</u>	<u>31,097,689</u>
Total liabilities and net assets	<u>\$36,131,577</u>	<u>\$33,848,347</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2013  
(with comparative totals for 2012)

	Total	
	2012	2013
Support and revenue:		
Support:		
Allocation from Tennessee Baptist Convention	\$ 1,675,409	\$ 1,606,478
Contributions	3,239,846	3,192,761
Contributions of beneficial interests in trusts held by trustees	248,267	2,067,224
Fundraising events	117,452	158,209
Bequests	353,593	374,733
Income from trusts	432,727	510,405
Noncash gifts	168,740	140,988
Noncash gifts - fundraising events	21,437	23,629
Net assets released from restrictions (Note I)	-	-
Total support	<u>6,257,472</u>	<u>8,074,427</u>
Revenue:		
Investment income	87,877	80,743
Investment gains	227,593	649,799
Investment gains on funds held by trustees	175,559	794,484
Child support payments	15,810	35,133
Rental income	137,850	34,984
Other	<u>27,054</u>	<u>59,902</u>
Total revenue	<u>671,743</u>	<u>1,655,045</u>
Total support and revenue	<u>6,929,215</u>	<u>9,729,472</u>
Expenses:		
Program services	5,948,584	5,803,887
Supporting services	<u>1,787,033</u>	<u>1,507,817</u>
Total expenses	<u>7,735,617</u>	<u>7,311,704</u>
Total increase (decrease) in net assets	( 806,402)	2,417,768
Net assets at beginning of year	<u>31,904,091</u>	<u>31,097,689</u>
Net assets at end of year	<u>\$ 31,097,689</u>	<u>\$33,515,457</u>

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<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
\$ 1,606,478	\$ -	\$ -
3,073,651	93,160	25,950
-	21,914	2,045,310
-	158,209	-
374,733	-	-
469,991	37,707	2,707
-	140,988	-
-	23,629	-
<u>688,737</u>	<u>( 688,737)</u>	<u>-</u>
<u>6,213,590</u>	<u>( 213,130)</u>	<u>2,073,967</u>
80,153	590	-
649,799	-	-
-	62,375	732,109
35,133	-	-
34,984	-	-
<u>59,902</u>	<u>-</u>	<u>-</u>
<u>859,971</u>	<u>62,965</u>	<u>732,109</u>
<u>7,073,561</u>	<u>( 150,165)</u>	<u>2,806,076</u>
5,803,887	-	-
<u>1,507,817</u>	<u>-</u>	<u>-</u>
<u>7,311,704</u>	<u>-</u>	<u>-</u>
( 238,143)	( 150,165)	2,806,076
<u>12,761,131</u>	<u>2,649,250</u>	<u>15,687,308</u>
<u>\$ 12,522,988</u>	<u>\$ 2,499,085</u>	<u>\$18,493,384</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED OCTOBER 31, 2013  
(with comparative totals for 2012)

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	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 2,417,768	\$( 806,402)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Investment gains	( 647,023)	( 227,593)
Investment gains on funds held by trustees	( 794,484)	( 175,559)
Depreciation	620,559	641,847
Building project expensed	63,219	-
Gifts in-kind	( 5,239)	( 2,000)
Decrease (increase) in accrued income receivable	23,254	( 4,950)
Increase in prepaid expenses and other assets	( 13,122)	( 71,191)
(Increase) decrease in deposits held by others	( 21,105)	13,885
Increase in beneficial interests in trusts	(2,067,225)	( 248,267)
(Decrease) increase in accounts payable and accrued liabilities	<u>( 161,697)</u>	<u>316,410</u>
Net cash used in operating activities	<u>( 585,095)</u>	<u>( 563,820)</u>
Cash flows from investing activities:		
Proceeds from beneficial interests in trust	106,114	8,134
Purchases of property and equipment	( 168,286)	( 481,122)
Purchases of investments	( 399,986)	( 50,550)
Proceeds from sales of investments and property held for sale	<u>343,631</u>	<u>32,281</u>
Net cash used in investing activities	<u>( 118,527)</u>	<u>( 491,257)</u>
Net decrease in cash and cash equivalents	( 703,622)	(1,055,077)
Cash and cash equivalents:		
Beginning of year	<u>2,699,016</u>	<u>3,754,093</u>
End of year	<u>\$ 1,995,394</u>	<u>\$ 2,699,016</u>

See accompanying notes to financial statements.



TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED OCTOBER 31, 2013  
(with comparative totals for 2012)

Total			Program
2012	2013		Services
\$2,605,742	\$2,715,952	Salaries	\$2,010,958
1,534,118	1,136,663	Retirement and group insurance	963,213
169,578	189,009	Social security	146,182
57,304	52,087	Workers' compensation insurance	45,742
39,522	40,276	Houseparent incentive pay	40,276
4,406,264	4,133,987	Total salaries and related benefits	3,206,371
14,632	13,927	Activities	13,927
29,870	31,673	Allowance and work program	31,673
19,179	9,052	Appreciation events	-
5,034	6,283	Background verification	5,696
13,902	18,339	Board meetings	-
-	63,219	Building project expensed	63,219
44,155	28,309	Christmas and birthday gifts	28,309
51,178	55,959	Clothing	55,959
45,280	42,034	Cottage outings	42,034
16,417	15,914	Data communications	13,979
6,433	6,526	Dues and memberships	3,225
146,137	154,905	Education	154,905
64,306	25,343	Equipment	25,343
61,405	65,326	Event costs	-
300	130	Family ministries	130
19,177	23,729	Farm	23,729
324,632	300,680	Food	300,680
12,997	12,971	Foster homes	12,971
29,619	29,769	Household goods	29,769
187,222	203,187	Insurance	181,447
44,364	47,837	Lawn maintenance	47,837
332,345	169,893	Maintenance	166,062
18,577	12,590	Medical	12,590
9,081	6,441	Miscellaneous	2,350
2,146	462	Mother's aid	462
40,980	39,886	Office	22,556
10,632	10,540	Personal hygiene	10,540
49,007	48,884	Postage	11,449
69,523	52,965	Printing and publicity	179
48,035	18,785	Professional services - legal	17,765
44,471	40,734	Professional services - non legal	6,050
94,186	147,894	Public relations services	-
30,735	34,652	Recreation	34,652
9,797	12,603	Spiritual enrichment and training	10,889
63,075	66,126	Supplies	66,126
40,852	38,016	Taxes	38,016
59,319	61,703	Telephone	49,900
32,365	75,064	Technology	38,535
27,432	23,114	Travel	9,758
398,878	377,418	Utilities	367,420
121,687	115,899	Vehicle fuel	98,739
48,144	48,377	Vehicle maintenance and repair	39,596
7,093,770	6,691,145	Total expenses before depreciation	5,244,837
641,847	620,559	Depreciation of buildings and equipment	559,050
\$7,735,617	\$7,311,704	Total expenses	\$5,803,887
100%	100%	Percentages	79.4%

<u>Supporting Services</u>		
<u>Management and General</u>	<u>Development</u>	<u>Total</u>
\$ 559,093	\$145,901	\$ 704,994
136,346	37,104	173,450
35,014	7,813	42,827
4,778	1,567	6,345
-	-	-
735,231	192,385	927,616
-	-	-
-	-	-
-	9,052	9,052
419	168	587
18,339	-	18,339
-	-	-
-	-	-
-	-	-
610	1,325	1,935
3,301	-	3,301
-	-	-
-	-	-
-	65,326	65,326
-	-	-
-	-	-
-	-	-
-	-	-
19,806	1,934	21,740
-	-	-
2,319	1,512	3,831
-	-	-
3,550	541	4,091
-	-	-
8,877	8,453	17,330
-	-	-
4,423	33,012	37,435
-	52,786	52,786
1,020	-	1,020
6,855	27,829	34,684
-	147,894	147,894
-	-	-
1,564	150	1,714
-	-	-
-	-	-
7,633	4,170	11,803
23,121	13,408	36,529
10,999	2,357	13,356
5,071	4,927	9,998
14,815	2,345	17,160
8,430	351	8,781
876,383	569,925	1,446,308
58,852	2,657	61,509
<u>\$ 935,235</u>	<u>\$572,582</u>	<u>\$1,507,817</u>
<u>12.8%</u>	<u>7.8%</u>	<u>20.6%</u>

See accompanying notes to financial statements.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2013  
(with comparative totals for 2012)

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.

Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

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, 2013  
(with comparative totals for 2012)

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 2012 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 2013.

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, 2013  
(with comparative totals for 2012)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property, Buildings and Equipment

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

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

Donated Materials and Services

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

Income Taxes

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

The Children's Homes accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Children's Homes include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Children's Homes has determined that such tax positions do not result in an uncertainty requiring recognition.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2013  
(with comparative totals for 2012)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Funds Held in Trust for Others

Consistent with its charter powers and purposes, the Children's Homes, as trustee, holds certain funds totaling \$997,118 and \$946,469 at October 31, 2013 and 2012, 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).

Pledges

At October 31, 2013, 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.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2013  
(with comparative totals for 2012)

B. INVESTMENTS

Investments at October 31, 2013 and 2012 were as follows:

	Total 2013		Total 2012	
	Market	Cost	Market	Cost
Mutual Funds	\$5,759,868	\$4,724,436	\$5,102,542	\$4,722,166
Certificates of Deposit	3,484,717	3,487,000	3,447,026	3,442,000
Insurance Policy	12,742	12,742	11,699	11,699
Common stocks	7,318	7,943	-	-
	<u>\$9,264,645</u>	<u>\$8,232,121</u>	<u>\$8,561,267</u>	<u>\$8,175,865</u>

Investments at October 31, 2013 and 2012 for each class of net assets were as follows:

	Total	
	2013	2012
Unrestricted	\$5,700,808	\$5,047,374
Temporarily restricted	115,225	123,726
Permanently restricted	<u>3,448,612</u>	<u>3,390,167</u>
	<u>\$9,264,645</u>	<u>\$8,561,267</u>

Interest and dividends earned on investments owned by the Children's Homes amounted to \$80,158 and \$86,964 for the years ended October 31, 2013 and 2012, respectively. This income represents yields of 1.0% and 1.1% based on the cost of such investments, and 0.9% and 1.0% based on the market of such investments for fiscal years 2013 and 2012, respectively.

The total return (income yield plus investment gains) on investments owned by the Children's Homes was a gain of 8.9% and 3.8% based on the cost of such investments, and a gain of 8.2% and 3.7% based on the market of such investments for fiscal years 2013 and 2012, respectively.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2013  
(with comparative totals for 2012)

C. PROPERTY, BUILDINGS AND EQUIPMENT - Continued

Property, buildings and equipment at October 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 3,372,202	\$ 2,929,728
Buildings	14,119,863	14,100,297
Furnishings and equipment	1,482,294	1,478,810
Improvements other than buildings	1,392,351	1,385,410
Other machinery and equipment	704,631	726,823
Vehicles	934,264	933,920
Construction in progress	-	505,692
	<u>22,005,605</u>	<u>22,060,680</u>
Less accumulated depreciation	<u>(13,553,530)</u>	<u>(13,098,352)</u>
Net investment in property, buildings and equipment	<u>\$ 8,452,075</u>	<u>\$ 8,962,328</u>

Land excavation cost included in construction in progress at October 31, 2012, was capitalized and building plan and permit costs were expensed in the year ended October 31, 2013. Construction is not expected to resume on this project due to changes in programming.



TENNESSEE BAPTIST CHILDREN'S HOMES, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2013  
(with comparative totals for 2012)

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, 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,772,783	\$ 1,461,451
Service cost	18,421	27,009
Interest cost	59,162	63,061
Actual benefit disbursements	( 97,034)	( 53,950)
Change in assumptions	( 146,961)	264,833
Actuarial loss	<u>( 26,213)</u>	<u>10,379</u>
Benefit obligation at the end of year	<u>\$ 1,580,158</u>	<u>\$ 1,772,783</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	97,034	53,950
Actual benefit disbursements	<u>( 97,034)</u>	<u>( 53,950)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$1,580,158</u>	<u>\$1,772,783</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$1,580,158</u>	<u>\$1,772,783</u>

The net periodic postretirement benefit costs recognized during the years ended October 31, 2013 and 2012, which are included in salaries and related benefits, are comprised of the following components:

	<u>2013</u>	<u>2012</u>
Service cost (benefits earned during the period)	\$18,421	\$27,009
Interest cost on accumulated postretirement benefit obligation	59,162	63,061
Loss to the extent recognized	<u>16,804</u>	<u>-</u>
	<u>\$94,387</u>	<u>\$90,070</u>

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D. POSTRETIREMENT BENEFITS - Continued

The net periodic postretirement benefit costs of \$94,387 and \$90,070 represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended October 31, 2013 and 2012, respectively. The Children's Homes does not expect to contribute to its post retirement benefit plan in fiscal 2014.

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

	<u>2013</u>	<u>2012</u>
Healthcare costs	8.00%	8.50%
Future compensation levels	3.00%	3.00%
Discount rate	4.30%	3.40%

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>
2014	\$ 68,111	\$ 5,889	\$34,770	\$108,770
2015	76,972	6,231	61,193	144,396
2016	81,649	5,921	19,808	107,378
2017	86,315	6,050	34,719	127,084
2018	75,358	6,428	16,443	98,229
2019 - 2023	405,559	34,260	72,722	512,541

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, 2013 is as follows:

	Health Care Cost Trend Rate		<u>Increase</u>
	<u>8.00%</u>	<u>9.00%</u>	
Service cost	\$ 5,314	\$ 6,220	\$ 906
Interest cost	<u>49,451</u>	<u>55,705</u>	<u>6,254</u>
Net periodic postretirement health care benefit cost	<u>\$54,765</u>	<u>\$61,925</u>	<u>\$7,160</u>
Accumulated postretirement benefit obligation for health care benefits at October 31, 2013	<u>\$1,277,989</u>	<u>\$1,423,142</u>	<u>\$145,153</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 \$235,920 and \$238,691 during the years ended October 31, 2013 and 2012, 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 \$33,307 and \$30,236 during the years ended October 31, 2013 and 2012, 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, 2013 and 2012 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 \$688,737 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, 2013 and 2012 the fair values are as follows:

	2013	2012
Residual trusts:		
Children's Homes as trustee	\$ 465,371	\$ 419,162
Held by outside trustees	48,844	116,877
Total residual trusts	<u>514,215</u>	<u>536,039</u>
Perpetual trusts held by outside trustees:		
Tennessee Baptist Foundation as trustee	10,834,905	8,321,406
Other trustees	4,250,977	3,987,057
Total perpetual trusts held by outside trustees	<u>15,085,882</u>	<u>12,308,463</u>
Total beneficial interests in trusts held by trustees	<u>\$15,600,097</u>	<u>\$12,844,502</u>

During 2013 and 2012, the Children's Homes received interest and dividends of \$510,405 and \$432,727, 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, 2013 and 2012 for the assets and liabilities measured at fair value on a recurring basis:

<u>October 31, 2013</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	\$ 5,759,868	\$5,759,868	\$ -	\$ -
Certificates of deposit	3,484,717	3,484,717	-	-
Insurance policy	12,742	-	-	12,742
Common stock	<u>7,318</u>	<u>7,318</u>	<u>-</u>	<u>-</u>
	9,264,645	9,251,903	-	12,742
Beneficial interests	15,600,097	-	15,600,097	-
<u>October 31, 2012</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	-

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, 2013**

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$17,295	\$ 3,407,502	\$ 3,424,797
Perpetual trusts held by trustees	<u>-</u>	<u>15,085,882</u>	<u>15,085,882</u>
Total funds	<u>\$17,295</u>	<u>\$18,493,384</u>	<u>\$18,510,679</u>

**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>

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L. ENDOWMENT FUNDS - Continued

**Changes in Endowment Net Assets for the years ended October 31, 2013 and 2012**

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<i>Endowment net assets, October 31, 2011</i>	\$(21,132)	\$15,283,809	\$ 15,262,677
Investment return:			
Investment income	34,924	-	34,924
Net appreciation (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>
Investment return:			
Investment income	37,911	-	37,911
Net depreciation (realized and unrealized)	<u>10,738</u>	<u>732,109</u>	<u>742,347</u>
Total investment return	<u>48,649</u>	<u>732,109</u>	<u>780,758</u>
Contributions	<u>-</u>	<u>2,073,967</u>	<u>2,073,967</u>
Appropriation of endowment assets for expenditure	<u>(37,911)</u>	<u>-</u>	<u>( 37,911)</u>
<i>Endowment net assets, October 31, 2013</i>	<u>\$ 17,295</u>	<u>\$18,493,384</u>	<u>\$ 18,510,679</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 9, 2013, the issuance date of the financial statements, and has determined that there are no subsequent events requiring disclosure.