

**TENNESSEE BAPTIST
ADULT HOMES, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

OCTOBER 31, 2013

TENNESSEE BAPTIST ADULT HOMES, INC.

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of Tennessee Baptist Adult Homes, Inc. ("Adult Homes"), 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 Adult 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 25 - 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Adult Homes' 2012 financial statements, and our report dated December 11, 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 ADULT HOMES, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2013
(with comparative totals for 2012)

<u>ASSETS</u>		
	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 673,738	\$ 720,178
Cash escrow - Williams Ferry Pointe (Note E)	120,502	34,370
Investments held by Tennessee Baptist Foundation (Note B)	994,654	928,688
Receivables:		
Patient receivables	225,814	224,484
Related party receivables	26,667	26,667
Accounts and notes receivable - other	199,466	192,547
Total receivables, no allowance considered necessary	<u>451,947</u>	<u>443,698</u>
Inventories	20,545	27,801
Prepaid expenses	62,243	45,725
Land, buildings and equipment, at cost, net (Notes C and D)	4,235,874	4,319,072
Completed homes available for sale (Note C)	1,034,700	1,034,700
Beneficial interests in trusts held by others (Note L)	1,081,631	999,712
Other assets	<u>12,266</u>	<u>18,384</u>
 Total assets	 <u>\$ 8,688,100</u>	 <u>\$ 8,572,328</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 328,044	\$ 310,935
Deferred revenue (Note E)	145,569	60,939
Postretirement benefit liability (Note H)	247,512	236,242
Notes payable (Note D)	<u>1,405,952</u>	<u>1,338,298</u>
 Total liabilities	 <u>2,127,077</u>	 <u>1,946,414</u>
Net assets:		
Unrestricted:		
Board designated	681,196	602,355
Undesignated	<u>4,482,012</u>	<u>4,693,769</u>
	5,163,208	5,296,124
Temporarily restricted (Notes M and O)	139,315	115,202
Permanently restricted (Notes M and O)	<u>1,258,500</u>	<u>1,214,588</u>
Total net assets	<u>6,561,023</u>	<u>6,625,914</u>
 Total liabilities and net assets	 <u>\$ 8,688,100</u>	 <u>\$ 8,572,328</u>

See accompanying notes to financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted
Support, revenue and gains:			
Patient service revenue, net of allowances and contractual adjustments (Note G)	\$ 6,326,462	\$ -	\$ -
Allocations from the cooperative program of Tennessee Baptist Convention	316,582	-	-
Contributions and gifts	347,887	180,080	-
Investment income and gains (Note B)	61,256	38,138	43,912
Management fees - Deer Lake Retirement Village	5,265	-	-
Rental income	21,492	-	-
Stoneway revenue	252,128	-	-
Rainbow revenue	161,311	-	-
Knoxville revenue	305,909	-	-
Lake Park revenue	177,507	-	-
Daycare revenue	170,555	-	-
Gain on involuntary conversion	-	-	-
Other operating revenue	38,510	-	-
Net assets released from restrictions (Note N)	194,105	(194,105)	-
Total support, revenue and gains	8,378,969	24,113	43,912
Expenses and losses:			
Program services:			
Stoneway expense	334,681	-	-
Rainbow expense	353,339	-	-
Knoxville expense	312,002	-	-
Special Friend expense	154,568	-	-
Lake Park expense	170,247	-	-
Nursing services	3,777,272	-	-
Housekeeping services	348,218	-	-
Dietary services	756,595	-	-
Maintenance services	348,037	-	-

Total	
2013	2012
\$ 6,326,462	\$ 6,414,661
316,582	321,795
527,967	614,426
143,306	158,982
5,265	4,455
21,492	22,269
252,128	275,613
161,311	187,895
305,909	294,832
177,507	149,674
170,555	185,463
-	46,457
38,510	37,796
-	-
8,446,994	8,714,318
334,681	368,977
353,339	320,303
312,002	293,514
154,568	146,988
170,247	168,727
3,777,272	3,772,967
348,218	343,253
756,595	780,592
348,037	378,714

See accompanying notes to financial statements.

TENNESSEE BAPTIST ADULT HOMES, INC.
STATEMENT OF ACTIVITIES - Continued
YEAR ENDED OCTOBER 31, 2013
(with comparative totals for 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted
Special services	\$ 415,477	\$ -	\$ -
Depreciation	<u>229,486</u>	<u>-</u>	<u>-</u>
Total program services	7,199,922	-	-
General and administrative	1,309,413	-	-
Loss on disposal of property	<u>2,550</u>	<u>-</u>	<u>-</u>
Total expenses and losses	<u>8,511,885</u>	<u>-</u>	<u>-</u>
Change in net assets	(132,916)	24,113	43,912
Net assets at beginning of year	<u>5,296,124</u>	<u>115,202</u>	<u>1,214,588</u>
Net assets at end of year	<u><u>\$ 5,163,208</u></u>	<u><u>\$ 139,315</u></u>	<u><u>\$ 1,258,500</u></u>

Total	
2013	2012
\$ 415,477	\$ 432,491
229,486	235,365
7,199,922	7,241,891
1,309,413	1,282,066
2,550	4,983
8,511,885	8,528,940
(64,891)	185,378
6,625,914	6,440,536
<u>\$ 6,561,023</u>	<u>\$ 6,625,914</u>

See accompanying notes to financial statements.

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

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ (64,891)	\$ 185,378
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	235,604	241,483
Loss on disposal of property and equipment	2,550	4,983
Contributions of beneficial interests in trusts held by others	(39,317)	-
Gain on involuntary conversation	-	(46,457)
Net gains on investments and beneficial interests in trusts	(59,447)	(131,275)
Gifts restricted for long-term investment	-	(77,778)
Increase in cash escrow	(86,132)	(17,067)
(Increase) decrease in receivables	(8,249)	68,617
(Increase) decrease in prepaid assets and other assets	(16,518)	957
Decrease (increase) in inventory	7,256	(6,765)
Increase in accounts payable and accrued liabilities	17,109	7,835
Increase in deferred revenue, net	84,630	12,812
Increase in accrued post-retirement benefit	11,270	7,812
Net cash provided by operating activities	<u>83,865</u>	<u>250,535</u>
Cash flows from investing activities:		
Purchases of property and equipment	(148,838)	(127,727)
Insurance proceeds	-	46,457
Issuance of notes receivable	-	(70,000)
Net sales (purchases) of investments	(49,121)	376,491
Net cash (used in) provided by investing activities	<u>(197,959)</u>	<u>225,221</u>
Cash flows from financing activities:		
Gifts restricted for long-term investment	-	77,778
Increase in beneficial interests in trusts	-	(77,778)
Net change in lines of credit	-	70,000
Payments on note payable and capital lease obligation	-	(344,335)
Proceeds from issuance of notes payable	67,654	10,161
Net cash provided by (used in) financing activities	<u>67,654</u>	<u>(264,174)</u>
Net change in cash	(46,440)	211,582
Cash and cash equivalents at beginning of year	<u>720,178</u>	<u>508,596</u>
Cash and cash equivalents at end of year	<u>\$ 673,738</u>	<u>\$ 720,178</u>
Additional information:		
Interest paid	<u>\$ 74,349</u>	<u>\$ 96,783</u>

See accompanying notes to financial statements.

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

	Program Services	General and Administrative and Losses	Total	
			2013	2012
Salaries	\$ 4,204,442	\$ 557,067	\$ 4,761,509	\$ 4,762,086
Employee benefits	721,838	188,092	909,930	929,693
Total salaries and related benefits	4,926,280	745,159	5,671,439	5,691,779
Advertising, marketing and recruitment	7,009	112,714	119,723	120,766
Bed taxes and licenses	237,232	-	237,232	236,635
Depreciation and amortization	229,487	6,118	235,605	241,483
Food supplies	497,451	-	497,451	508,673
Freight	8,346	-	8,346	8,441
Insurance	229,732	28,116	257,848	248,216
Interest	-	74,349	74,349	90,665
Laundry	103,932	-	103,932	104,994
Loss on sale of property	-	2,550	2,550	4,983
Maintenance and repairs	36,189	6,548	42,737	44,238
Memberships, due and subscriptions	804	24,372	25,176	17,535
Miscellaneous	24,511	82,583	107,094	118,828
Professional and consulting services	8,400	8,671	17,071	11,360
Property taxes	-	39,701	39,701	26,301
Purchased services	43,007	75,319	118,326	108,623
Resident activities	22,117	-	22,117	13,870
Resident allowances	19,572	-	19,572	20,139
Special friends camps	75,352	-	75,352	71,389
Supplies	381,458	18,654	400,112	421,635
Training	29,167	3,600	32,767	22,963
Travel and auto	45,453	33,887	79,340	84,743
Uniforms	6,098	-	6,098	3,521
Utilities	268,325	49,622	317,947	307,160
Total	<u>\$ 7,199,922</u>	<u>\$ 1,311,963</u>	<u>\$ 8,511,885</u>	<u>\$ 8,528,940</u>
Percentages	<u>84.59%</u>	<u>15.41%</u>	<u>100.00%</u>	

See accompanying notes to financial statements.

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

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 daycare facility (Baptist Health Care Center) in Lenoir City, Tennessee; and adult group homes in Jacksboro/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 Baptist Health Care Center, rental income from elderly housing at Baptist Village of Johnson City, and fees under sponsorship agreements (See Note F). Adult Homes is currently in the construction stage of an adult independent living community, Williams Ferry Pointe, located in Lenoir City.

Basis of 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, 2013
(with comparative totals for 2012)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Comparative Financial Totals

The financial information shown for fiscal year 2012 in the accompanying statement of financial position, and statements of activities, cash flows and functional expenses is included to provide a basis for comparison with fiscal year 2013.

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 (first-in, first-out method) or market.

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 Adult Homes' policy to capitalize expenditures for these items in excess of \$500.

Depreciation of buildings, improvements, furniture, equipment and vehicles 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, 2013
(with comparative totals for 2012)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Impairment of Long-Lived Assets

Adult Homes evaluates the recoverability of its long-lived assets for possible impairment when events or circumstances indicate that the carrying amounts may not be recoverable. Long-lived assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are independent of the cash flows of other groups of assets. If it is determined that the carrying amounts of such long-lived assets are not recoverable, the assets are written down to their fair value. As of October 31, 2013 and 2012, in the opinion of management, there has been no such impairment.

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.

Adult 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 Adult Homes include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, Adult Homes has determined that such tax positions do not result in an uncertainty requiring recognition.

Estimates

Judgment and estimation are exercised by management in certain areas of the preparation of financial statements. The more significant areas include the collectability of receivables, the recovery period for buildings and equipment, the determination of the postretirement benefit liability and fair value of completed homes available for sale. 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 ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2013
(with comparative totals for 2012)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note P). 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 Adult Homes' best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Net Patient Service Revenue and Receivables

Net patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered. Adult Homes participates in the Medicaid program.

The Medicaid program reimburses Adult Homes for the cost of intermediate care services rendered to Medicaid beneficiaries at a prospective rate which is based on the lower of the reimbursable cost of services rendered to intermediate care beneficiaries or a reimbursement cap established by Medicaid. The reimbursement cap is expressed as a per diem amount.

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 reports 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, 2013
(with comparative totals for 2012)

B. INVESTMENTS HELD BY THE TENNESSEE BAPTIST FOUNDATION

Investments at October 31 are summarized as follows:

	<u>Total 2013</u>		<u>Total 2012</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Mutual funds	\$902,648	\$833,196	\$836,975	\$806,987
Bonds and notes	-	-	86,267	74,709
Stock	<u>92,006</u>	<u>96,501</u>	<u>5,446</u>	<u>5,000</u>
	<u>\$994,654</u>	<u>\$929,697</u>	<u>\$928,688</u>	<u>\$886,696</u>

Investments at October 31 for each class of net assets were as follows:

	<u>Total</u>	
	<u>2013</u>	<u>2012</u>
	<u>Market</u>	<u>Market</u>
Unrestricted	\$678,470	\$598,610
Temporarily restricted	69,348	83,242
Permanently restricted	<u>246,836</u>	<u>246,836</u>
	<u>\$994,654</u>	<u>\$928,688</u>

Income and gains on investments owned by Adult Homes and beneficial interests in trusts held by others amounted to \$143,306 and \$158,982 for the years ended October 31, 2013 and 2012, respectively. This income and gains represent a yield of 7.2% and 8.2% based on the average market of such investments and beneficial interests in trusts held by others for fiscal 2013 and 2012, respectively.

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

C. LAND, BUILDINGS AND EQUIPMENT

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

	<u>October 31,</u>	
	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 1,189,174	\$ 1,187,315
Buildings	4,908,759	4,908,759
Building improvements	846,906	816,513
Leasehold improvements	2,185	2,185
Furniture, equipment and automotive equipment	1,041,908	1,033,064
Construction in progress	<u>1,337,038</u>	<u>1,269,066</u>
	9,325,970	9,216,902
Less accumulated depreciation	<u>(5,090,096)</u>	<u>(4,897,830)</u>
	<u>\$ 4,235,874</u>	<u>\$ 4,319,072</u>

Fully depreciated assets with a cost of \$1,898,479 were still in use at October 31, 2013.

Construction in progress is composed of certain unallocated infrastructure and engineering costs for the Williams Ferry Pointe adult independent living project. These remaining costs will be allocated to future home construction when completed. At October 31, 2013, three single homes and three units of one quad-plex are held for sale and are classified on the statement of financial position as completed homes available for sale.

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

D. NOTES PAYABLE

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

	<u>2013</u>	<u>2012</u>
Note payable to bank under a \$1,500,000 revolving line-of-credit. Interest is paid monthly at the prime rate plus 1%, but not less than 6.50% and not more than 18.00% (6.50% at October 31, 2013) through August 2015, at which time all outstanding interest and principal is due. The note is collateralized by a deed of trust on certain property.	\$1,215,952	\$1,148,298
Note payable to bank under a \$200,000 revolving line-of-credit. Interest is payable monthly at a variable interest rate (4.25% at October 31, 2013) and is due on demand. Available borrowings at October 31, 2013 were \$10,000. The line-of-credit is unsecured.	<u>190,000</u>	<u>190,000</u>
Total	<u>\$1,405,952</u>	<u>\$1,338,298</u>

Maturities of the notes payable are as follows:

<u>Year Ending October 31,</u>	<u>Amount</u>
2014	\$ 190,000
2015	<u>1,215,952</u>
	<u>\$1,405,952</u>

E. DEFERRED REVENUE

Adult Homes is currently collecting membership and lease agreement fees from future residents of the Williams Ferry Pointe adult independent living community, which qualifies as a continuing-care retirement 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, 2013 and 2012, Adult Homes reported as deferred revenue membership fees in the amount of \$22,000 and \$8,000.

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

E. DEFERRED REVENUE - Continued

Lease agreement fees represent a one-time fee made by each future homeowner for the lease of land on which each home will be constructed. The fee is earned by Adult Homes over a four-year period. A pro-rata refund is available to homeowners who leave the community prior to the end of the four-year period. As of October 31, 2013 and 2012, Adult Homes reported as deferred revenue lease agreement fees in the amount of \$114,000 and \$42,000. The fees are in connection with a lifetime lease and are amortized over the life expectancy of the leasee.

Deferred revenue also includes certain fees totaling \$9,569 and \$10,939 collected from residents of certain facilities and/or Medicaid for services not yet provided as of October 31, 2013 and 2012, respectively.

F. SPONSORSHIP AGREEMENTS

Deer Lake Retirement Village

Adult Homes sponsors the Deer Lake Retirement Village. 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.

G. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2013</u>	<u>2012</u>
Patient service revenue	\$ 6,822,595	\$ 6,889,598
Less contractual adjustments	<u>(496,133)</u>	<u>(474,937)</u>
	<u>\$ 6,326,462</u>	<u>\$ 6,414,661</u>

Approximately 47% of patient revenue is from Medicaid for the years ended October 31, 2013 and 2012.

TENNESSEE BAPTIST ADULT HOMES, INC.
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H. POSTRETIREMENT BENEFITS

Adult Homes 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.

The status of the plan at October 31 was as follows:

	<u>2013</u>	<u>2012</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 236,242	\$ 228,430
Net periodic postretirement benefit cost	20,327	16,869
Actual benefit disbursements	<u>(9,057)</u>	<u>(9,057)</u>
Benefit obligation at the end of year	<u>\$ 247,512</u>	<u>\$ 236,242</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual contributions	9,057	9,057
Actual benefit disbursements	<u>(9,057)</u>	<u>(9,057)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$ 247,512</u>	<u>\$ 236,242</u>
Net postretirement benefit liability recognized in statements of financial position	<u>\$ 247,512</u>	<u>\$ 236,242</u>

The net periodic postretirement benefit cost recognized during the years ended October 31, 2013 and 2012 was \$20,327 and \$16,869, 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% for fiscal 2013 and 2012, and future compensation levels of 5%. In addition, a discount rate of 5.50% was assumed for fiscal 2013 and 2012.

At October 31, 2013 and 2012, Adult Homes' assets held in investments with a fair value totaling \$62,843 and \$55,979, respectively have been internally designated to fund the obligation.

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I. RETIREMENT PLAN

Adult Homes and 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. Baptist Health Care Center provides a contribution-matching program to its employees. Pension expense for the years ended October 31, 2013 and 2012, was \$80,480 and \$75,212, respectively.

J. 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 \$21,501 and \$22,295 for fiscal 2013 and 2012, respectively.

K. 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, 2013 includes demand deposits at certain 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.

L. BENEFICIAL INTERESTS IN TRUSTS HELD BY OTHERS

Beneficial interest in trusts held by others were \$1,081,631 and \$999,712 at October 31, 2013 and 2012, respectively. These funds name Adult Homes as a beneficiary and are held by the Tennessee Baptist Foundation.

M. NET ASSETS

Temporarily restricted net assets at October 31, 2013 and 2012 are available for program services. Permanently restricted net assets at October 31, 2013 and 2012 consist of endowment funds and Adult Homes' beneficial interests in perpetual trusts held by others.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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N. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets of \$194,105 and \$164,792, for fiscal 2013 and 2012, 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.

O. ENDOWMENT

Adult Homes' endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and beneficial interests in perpetual trusts held by others. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Adult Homes has interpreted the applicable state law 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, Adult 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 Adult Homes in a manner consistent with the standard of prudence prescribed by applicable state laws.

Endowment Net Asset Composition by Type of Fund as of October 31:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2013:</u>				
Donor-restricted endowment funds	\$11,920	\$58,077	\$ 246,836	\$ 316,833
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>-</u>	<u>1,011,664</u>	<u>1,011,664</u>
Total funds	<u>\$11,920</u>	<u>\$58,077</u>	<u>\$1,258,500</u>	<u>\$1,328,497</u>

TENNESSEE BAPTIST ADULT HOMES, INC.
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O. ENDOWMENT - Continued

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2012:</u>				
Donor-restricted endowment funds	\$3,745	\$74,379	\$ 246,836	\$ 324,960
Beneficial interest in perpetual trusts held by others	<u>-</u>	<u>-</u>	<u>967,752</u>	<u>967,752</u>
Total funds	<u>\$3,745</u>	<u>\$74,379</u>	<u>\$1,214,588</u>	<u>\$1,292,712</u>

Changes in Endowment Net Assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, November 1, 2011	\$(750)	\$ 51,098	\$1,129,269	\$ 1,179,617
Investment return:				
Investment income	502	33,328	-	33,830
Net appreciation (realized and unrealized)	<u>4,067</u>	<u>20,655</u>	<u>7,541</u>	<u>32,263</u>
Total investment return	<u>4,569</u>	<u>53,983</u>	<u>7,541</u>	<u>66,093</u>
Contributions	<u>-</u>	<u>-</u>	<u>77,778</u>	<u>77,778</u>
Appropriation of endowment assets for expenditures	<u>(74)</u>	<u>(30,702)</u>	<u>-</u>	<u>(30,776)</u>
Endowment net assets, October 31, 2012	3,745	74,379	1,214,588	1,292,712
Investment return:				
Investment income	586	54,049	-	54,635
Net appreciation (realized and unrealized)	<u>7,674</u>	<u>(18,319)</u>	<u>43,912</u>	<u>33,267</u>
Total investment return	<u>8,260</u>	<u>35,730</u>	<u>43,912</u>	<u>87,902</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>(85)</u>	<u>(52,032)</u>	<u>-</u>	<u>(52,117)</u>
Endowment net assets, October 31, 2013	<u>\$ 11,920</u>	<u>\$ 58,077</u>	<u>\$1,258,500</u>	<u>\$ 1,328,497</u>

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

O. ENDOWMENT - Continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the applicable state law requires Adult Homes to retain as a fund of perpetual duration. There were no funds with deficiencies at October 31, 2013.

Return Objectives and Risk Parameters

Adult Homes has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Adult Homes must hold in perpetuity or for a donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected market and comparative indices while assuming a moderate level of investment risk. Actual returns will vary in any given year.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Adult Homes relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Adult Homes targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Adult Homes has no formal spending policy. Annual appropriations for expenditure are made at the discretion of the Board of Directors when determining the annual budget. In determining this amount, Adult Homes considers the long-term expected return on its endowment. Adult Homes' objective is to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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P. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair values of financial instruments are presented below. The estimated fair value amounts have been determined based on Adult Homes assessment of available market information and appropriate valuation methodologies. Adult Homes evaluates fair value measurement inputs annually at October 31. The following table summarizes fair value disclosures and measurements at October 31, 2013 and 2012:

	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>
<u>2013:</u>				
Investments:				
Mutual funds	\$ 902,648	\$902,648	\$ -	\$ -
Stocks	<u>92,006</u>	<u>92,006</u>	<u>-</u>	<u>-</u>
Total investments	994,654	994,654	-	-
Beneficial interests in trusts held by others	1,081,631	-	1,081,631	-
<u>2012:</u>				
Investments:				
Mutual funds	\$ 836,975	\$836,975	\$ -	\$ -
Bonds and notes	86,267	86,267	-	-
Stocks	<u>5,446</u>	<u>5,446</u>	<u>-</u>	<u>-</u>
Total investments	928,688	928,688	-	-
Beneficial interests in trusts held by others	999,712	-	999,712	-

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents

Cash and cash equivalents are reflected at carrying value, which is considered their fair value.

Patient Receivables, Accounts and Notes Receivable

Patient receivables, accounts and notes receivable consist primarily of short-term receivables from Medicaid, residents and Deer Lake Retirement Village. The notes receivable are not readily marketable. Adult Homes has estimated fair value to be their carrying value.

TENNESSEE BAPTIST ADULT HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
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P. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Investments and Beneficial Interests in Trusts Held by Others

The fair value of investments and beneficial interests in trusts held by others, as disclosed in Notes B and L, respectively, has been calculated based on quoted market prices.

Accounts Payable, Accrued Liabilities and Deferred Revenue

The carrying value of accounts payable, accrued liabilities and deferred revenue approximates fair value due to the short-term nature of the obligations.

Notes Payable

For debt instruments with variable interest rates, the fair value approximates the carrying value.

Q. ADVERTISING COSTS

Adult Homes expenses the cost of advertising as incurred. These costs for the years ended October 31, 2013 and 2012 were \$47,996 and \$49,450, respectively.

R. LITIGATION AND CONTINGENCIES

Adult Homes is a defendant in legal actions from time to time in the normal course of operations. It is not possible to state the ultimate liability, if any, in these matters. In the opinion of management and legal counsel, any resulting liability from these actions will not have a material adverse effect on the results of activities or the financial position of Adult Homes.

S. SUBSEQUENT EVENTS

Adult Homes has evaluated subsequent events through December 9, 2013, the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

SUPPLEMENTAL INFORMATION

TENNESSEE BAPTIST ADULT HOMES, INC.
COMBINING SCHEDULE - STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2013

ASSETS

	Tennessee Baptist Adult Homes	Baptist Health Care Center (A Division of TBAH)	Eliminations	Total
Cash and cash equivalents	\$ 37,830	\$ 635,908	\$ -	\$ 673,738
Cash escrow - Williams Ferry Pointe	-	120,502	-	120,502
Investments held by Tennessee Baptist Foundation	994,654	-	-	994,654
Receivables:				
Patient receivables	-	225,814	-	225,814
Related party receivables	284,667	-	(258,000)	26,667
Accounts and notes receivable - other	199,466	-	-	199,466
Total receivables	<u>484,133</u>	<u>225,814</u>	<u>(258,000)</u>	<u>451,947</u>
Inventories	-	20,545	-	20,545
Prepaid expenses	32,736	29,507	-	62,243
Land, buildings and equipment, at cost, net	1,507,670	2,728,204	-	4,235,874
Completed homes available for sale	-	1,034,700	-	1,034,700
Beneficial interests in trusts held by others	1,081,631	-	-	1,081,631
Other assets	<u>-</u>	<u>12,266</u>	<u>-</u>	<u>12,266</u>
Total assets	<u>\$ 4,138,654</u>	<u>\$ 4,807,446</u>	<u>\$ (258,000)</u>	<u>\$ 8,688,100</u>

LIABILITIES AND NET ASSETS

Liabilities:				
Accounts payable and accrued liabilities	\$ 35,920	\$ 292,124	\$ -	\$ 328,044
Deferred revenue	-	145,569	-	145,569
Postretirement benefit liability	247,512	-	-	247,512
Notes payable	190,000	1,473,952	(258,000)	1,405,952
Total liabilities	<u>473,432</u>	<u>1,911,645</u>	<u>(258,000)</u>	<u>2,127,077</u>
Net assets:				
Unrestricted:				
Board designated	681,196	-	-	681,196
Undesignated	1,586,211	2,895,801	-	4,482,012
	<u>2,267,407</u>	<u>2,895,801</u>	<u>-</u>	<u>5,163,208</u>
Temporarily restricted	139,315	-	-	139,315
Permanently restricted	1,258,500	-	-	1,258,500
Total net assets	<u>3,665,222</u>	<u>2,895,801</u>	<u>-</u>	<u>6,561,023</u>
Total liabilities and net assets	<u>\$ 4,138,654</u>	<u>\$ 4,807,446</u>	<u>\$ (258,000)</u>	<u>\$ 8,688,100</u>

See accompanying independent auditor's report.

TENNESSEE BAPTIST ADULT HOMES, INC
COMBINING SCHEDULE - STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2013

	Tennessee Baptist Adult Home	Baptist Health Care Center (A Division of TBAH)	Eliminations	Total
Support, revenue and gains:				
Patient service revenue, net of allowances and contractual adjustments	\$ -	\$ 6,326,462	\$ -	\$ 6,326,462
Allocations from the cooperative program of Tennessee Baptist Convention	316,582	-	-	316,582
Contributions and gifts	513,437	14,530	-	527,967
Investment income and gains	143,306	-	-	143,306
Management fees - Deer Lake Retirement Village	5,265	-	-	5,265
Rental income	21,492	-	-	21,492
Stoneway revenue	252,128	-	-	252,128
Rainbow revenue	161,311	-	-	161,311
Knoxville revenue	305,909	-	-	305,909
Lake Park revenue	177,507	-	-	177,507
Daycare revenue	-	170,555	-	170,555
Other operating revenue	60,000	38,510	(60,000)	38,510
Total support, revenue and gains	1,956,937	6,550,057	(60,000)	8,446,994
Expenses and losses:				
Program services:				
Stoneway expense	334,681	-	-	334,681
Rainbow expense	353,339	-	-	353,339
Knoxville expense	312,002	-	-	312,002
Special Friend expense	154,568	-	-	154,568
Lake Park expense	170,247	-	-	170,247
Nursing services	-	3,777,272	-	3,777,272
Housekeeping services	-	348,218	-	348,218
Dietary services	-	756,595	-	756,595
Maintenance services	-	348,037	-	348,037
Special services	-	415,477	-	415,477
Depreciation	106,914	122,572	-	229,486
Total program services	1,431,751	5,768,171	-	7,199,922
General and administrative	529,516	839,897	(60,000)	1,309,413
Loss on disposal of property	-	2,550	-	2,550
Total expenses and losses	1,961,267	6,610,618	(60,000)	8,511,885
Change in net assets	(4,330)	(60,561)	-	(64,891)
Net assets at beginning of year	3,669,552	2,956,362	-	6,625,914
Net assets at end of year	\$ 3,665,222	\$ 2,895,801	\$ -	\$ 6,561,023

See accompanying independent auditor's report.