

TENNESSEE BAPTIST
CHILDREN'S HOMES, INC.
AND SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report

October 31, 2022 and 2021

TENNESSEE BAPTIST CHILDREN’S HOMES, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Tennessee Baptist Children's Homes, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of October 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tennessee Baptist Children's Homes, Inc. and Subsidiary as of October 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Tennessee Baptist Children's Homes, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tennessee Baptist Children's Homes, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tennessee Baptist Children's Homes, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tennessee Baptist Children's Homes, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Lawrenceville, Georgia
April 6, 2023

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position

	October 31,	
	2022	2021
ASSETS:		
Cash and cash equivalents	\$ 4,885,805	\$ 2,479,097
Accounts receivable	598,361	271,349
Prepaid expenses and other assets	110,793	251,838
Funds held in custody for children	22,744	26,474
Deposits held by others	521,013	591,560
Property held for sale	75,000	667,081
Investments (Note 4)	12,309,534	12,633,490
Property, buildings, and equipment—net (Note 5)	6,530,092	6,466,838
Beneficial interest in trusts held by trustees (Note 6)	18,336,379	21,400,610
	<u>43,389,721</u>	<u>44,788,337</u>
Total Assets	\$ 43,389,721	\$ 44,788,337
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 639,428	\$ 712,157
Accrued expenses and other liabilities	287,565	327,408
Funds held in custody for children	22,744	26,474
Post-retirement benefit obligation (Note 7)	629,571	869,264
Total liabilities	<u>1,579,308</u>	<u>1,935,303</u>
Net assets:		
Net assets without donor restrictions	<u>16,221,732</u>	<u>14,058,888</u>
Net assets with donor restrictions:		
Restricted by purpose or time	2,567,987	2,726,126
Restricted in perpetuity	23,020,694	26,068,020
	<u>25,588,681</u>	<u>28,794,146</u>
Total net assets	<u>41,810,413</u>	<u>42,853,034</u>
Total Liabilities and Net Assets	<u>\$ 43,389,721</u>	<u>\$ 44,788,337</u>

See notes to consolidated financial statements

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended October 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING SUPPORT AND REVENUE:			
Cooperative Program allocation	\$ 1,478,167	\$ -	\$ 1,478,167
Contributions of financial assets	4,302,034	295,846	4,597,880
Bequests	1,227,237	-	1,227,237
Contributions of non-financial assets	-	176,542	176,542
Investment income	(1,447,517)	(101,001)	(1,548,518)
Income from beneficial interest in trusts	579,954	18,738	598,692
Gain from sale of property, buildings, and equipment	3,144,528	-	3,144,528
Other income	156,683	-	156,683
Net assets released from restrictions	552,581	(552,581)	-
Total Operating Support and Revenue	<u>9,993,667</u>	<u>(162,456)</u>	<u>9,831,211</u>
OPERATING EXPENSES:			
Program services:			
Residential care	4,688,447	-	4,688,447
Foster care	1,464,987	-	1,464,987
Family care	152,542	-	152,542
	<u>6,305,976</u>	<u>-</u>	<u>6,305,976</u>
Supporting activities:			
Management and general	1,294,005	-	1,294,005
Ministry advancement	454,010	-	454,010
	<u>1,748,015</u>	<u>-</u>	<u>1,748,015</u>
Total Operating Expenses	<u>8,053,991</u>	<u>-</u>	<u>8,053,991</u>
Change in Net Assets from Operating Activities	<u>1,939,676</u>	<u>(162,456)</u>	<u>1,777,220</u>
NONOPERATING ACTIVITIES:			
Contributions of beneficial interest in trusts	-	259,754	259,754
Change in value of beneficial interest in trusts	-	(3,302,763)	(3,302,763)
Other components of net periodic post retirement costs	(18,474)	-	(18,474)
Post-retirement related changes other than net periodic post-retirement costs	241,642	-	241,642
Change in Net Assets from Nonoperating Activities	<u>223,168</u>	<u>(3,043,009)</u>	<u>(2,819,841)</u>
Change in Net Assets	2,162,844	(3,205,465)	(1,042,621)
Net Assets, Beginning of Year	<u>14,058,888</u>	<u>28,794,146</u>	<u>42,853,034</u>
Net Assets, End of Year	<u>\$ 16,221,732</u>	<u>\$ 25,588,681</u>	<u>\$ 41,810,413</u>

See notes to consolidated financial statements

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended October 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING SUPPORT AND REVENUE:			
Cooperative Program allocation	\$ 1,481,556	\$ -	\$ 1,481,556
Contributions of financial assets	4,255,903	550,335	4,806,238
Bequests	710,355	171,384	881,739
Contributions of non-financial assets	-	285,198	285,198
Investment income	1,722,191	35,084	1,757,275
Income from beneficial interest in trusts	514,440	1,540	515,980
Loss from sale of property, buildings, and equipment	(381,367)	-	(381,367)
Other income	266,639	-	266,639
Net assets released from restrictions	1,236,534	(1,236,534)	-
Total Operating Support and Revenue	<u>9,806,251</u>	<u>(192,993)</u>	<u>9,613,258</u>
OPERATING EXPENSES:			
Program services:			
Residential care	4,462,838	-	4,462,838
Foster care	1,324,289	-	1,324,289
Family care	166,765	-	166,765
	<u>5,953,892</u>	<u>-</u>	<u>5,953,892</u>
Supporting activities:			
Management and general	1,322,904	-	1,322,904
Ministry advancement	514,838	-	514,838
	<u>1,837,742</u>	<u>-</u>	<u>1,837,742</u>
Total Operating Expenses	<u>7,791,634</u>	<u>-</u>	<u>7,791,634</u>
Change in Net Assets from Operating Activities	<u>2,014,617</u>	<u>(192,993)</u>	<u>1,821,624</u>
NONOPERATING ACTIVITIES:			
Contributions of beneficial interest in trusts	-	624,346	624,346
Change in value of beneficial interest in trusts	-	2,710,868	2,710,868
Other components of net periodic post retirement costs	(17,347)	-	(17,347)
Post-retirement related changes other than net periodic post-retirement costs	(84,160)	-	(84,160)
Change in Net Assets from Nonoperating Activities	<u>(101,507)</u>	<u>3,335,214</u>	<u>3,233,707</u>
Change in Net Assets	1,913,110	3,142,221	5,055,331
Net Assets, Beginning of Year	<u>12,145,778</u>	<u>25,651,925</u>	<u>37,797,703</u>
Net Assets, End of Year	<u>\$ 14,058,888</u>	<u>\$ 28,794,146</u>	<u>\$ 42,853,034</u>

See notes to consolidated financial statements

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended October 31, 2022

	Program Services				Supporting Activities			Total Expenses
	Residential Care	Foster Care	Family Care	Total Program Services	Management and General	Ministry Advancement	Total Supporting Activities	
Payroll and related costs	\$ 2,674,477	\$ 1,092,971	\$ 136,184	\$ 3,903,632	\$ 1,028,979	\$ 229,039	\$ 1,258,018	\$ 5,161,650
Activities, trips, and camps	5,245	-	-	5,245	-	-	-	5,245
Allowance and work program	15,063	-	-	15,063	-	-	-	15,063
Background verification	955	10,735	-	11,690	375	-	375	12,065
Board meetings	-	-	-	-	15,814	-	15,814	15,814
Christmas supplies & gift expenses	7,339	155	-	7,494	-	-	-	7,494
Clothing	29,109	-	-	29,109	-	-	-	29,109
Cottage outings and entertainment	36,954	-	-	36,954	-	-	-	36,954
Dues and memberships	2,215	20,355	5,000	27,570	4,159	620	4,779	32,349
Education	117,739	56	-	117,795	-	-	-	117,795
Equipment	75,564	4,279	-	79,843	-	-	-	79,843
Farm supplies & equipment	34,674	-	-	34,674	-	-	-	34,674
Food	158,136	10	-	158,146	-	-	-	158,146
Household goods	27,711	-	-	27,711	-	-	-	27,711
Insurance-general	169,345	32,292	1,632	203,269	36,009	1,397	37,406	240,675
Maintenance	277,803	39,649	-	317,452	7,943	3,707	11,650	329,102
Medical	15,013	63	-	15,076	-	-	-	15,076
Miscellaneous	3,380	47	1,637	5,064	4,966	21,602	26,568	31,632
Office	18,042	12,390	94	30,526	12,604	5,116	17,720	48,246
Personal hygiene supplies	9,519	-	-	9,519	-	-	-	9,519
Printing and publicity	-	515	-	515	-	79,076	79,076	79,591
Postage	2,163	477	27	2,667	1,328	34,923	36,251	38,918
Professional services	7,464	1,160	-	8,624	17,199	-	17,199	25,823
Public relations services	-	-	-	-	-	6,754	6,754	6,754
Recreation supplies	26,119	-	-	26,119	-	-	-	26,119
Rent	-	31,341	-	31,341	-	-	-	31,341
Training	15,076	10,197	1,015	26,288	14,571	1,144	15,715	42,003
Supplies	39,750	15	-	39,765	-	-	-	39,765
Taxes	20,375	-	-	20,375	98	-	98	20,473
Technology	31,101	28,619	272	59,992	32,023	59,167	91,190	151,182
Travel	5,254	90,333	3,214	98,801	9,520	3,518	13,038	111,839
Utilities	354,548	52,478	600	407,626	24,970	7,103	32,073	439,699
Vehicle maintenance	99,053	11,346	2,867	113,266	21,646	-	21,646	134,912
Total before depreciation	4,279,186	1,439,483	152,542	5,871,211	1,232,204	453,166	1,685,370	7,556,581
Depreciation	409,261	25,504	-	434,765	61,801	844	62,645	497,410
Total operating expenses	4,688,447	1,464,987	152,542	6,305,976	1,294,005	454,010	1,748,015	8,053,991
Other components of net periodic post-retirement costs	7,715	210	567	8,492	9,778	204	9,982	18,474
Total expenses	<u>\$ 4,696,162</u>	<u>\$ 1,465,197</u>	<u>\$ 153,109</u>	<u>\$ 6,314,468</u>	<u>\$ 1,303,783</u>	<u>\$ 454,214</u>	<u>\$ 1,757,997</u>	<u>\$ 8,072,465</u>

See notes to consolidated financial statements

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended October 31, 2021

	Program Services				Supporting Activities			Total Expenses
	Residential Care	Foster Care	Family Care	Total Program Services	Management and General	Ministry Advancement	Total Supporting Activities	
Payroll and related costs	\$ 2,587,551	\$ 1,016,606	\$ 145,837	\$ 3,749,994	\$ 1,031,170	\$ 286,677	\$ 1,317,847	\$ 5,067,841
Activities, trips, and camps	5,789	-	-	5,789	-	-	-	5,789
Allowance and work program	19,329	-	-	19,329	-	-	-	19,329
Background verification	2,637	12,778	8	15,423	182	19	201	15,624
Board meetings	-	-	-	-	9,528	-	9,528	9,528
Christmas supplies & gift expenses	13,417	227	-	13,644	-	-	-	13,644
Clothing	26,736	-	-	26,736	-	-	-	26,736
Cottage outings and entertainment	30,998	-	-	30,998	-	-	-	30,998
Dues and memberships	1,793	580	5,000	7,373	4,025	3,000	7,025	14,398
Education	104,003	-	-	104,003	-	-	-	104,003
Equipment	86,231	19,353	-	105,584	1,433	153	1,586	107,170
Farm supplies & equipment	39,913	-	-	39,913	-	-	-	39,913
Food	175,131	46	-	175,177	-	-	-	175,177
Household goods	24,313	326	-	24,639	-	-	-	24,639
Insurance-general	151,590	21,304	1,551	174,445	56,339	1,029	57,368	231,813
Maintenance	274,167	33,395	-	307,562	4,842	1,532	6,374	313,936
Medical	30,307	25	-	30,332	-	-	-	30,332
Miscellaneous	856	275	1,055	2,186	9,517	16,212	25,729	27,915
Office	14,592	10,224	1	24,817	11,942	5,061	17,003	41,820
Personal hygiene supplies	8,791	-	-	8,791	-	-	-	8,791
Printing and publicity	-	1,128	-	1,128	-	71,187	71,187	72,315
Postage	2,013	228	3	2,244	911	30,764	31,675	33,919
Professional services	8,806	5,080	-	13,886	24,547	-	24,547	38,433
Public relations services	-	-	-	-	-	6,262	6,262	6,262
Recreation supplies	24,188	-	-	24,188	-	-	-	24,188
Rent	-	25,099	-	25,099	-	-	-	25,099
Training	9,833	5,769	773	16,375	9,968	1,174	11,142	27,517
Supplies	46,251	-	-	46,251	-	14,611	14,611	60,862
Taxes	37,309	-	-	37,309	108	-	108	37,417
Technology	33,141	27,451	217	60,809	25,628	52,608	78,236	139,045
Travel	3,403	77,788	1,007	82,198	7,676	9,496	17,172	99,370
Utilities	307,584	39,910	600	348,094	39,894	7,427	47,321	395,415
Vehicle maintenance	75,359	2,935	1,280	79,574	16,683	326	17,009	96,583
Total before depreciation	4,146,031	1,300,527	157,332	5,603,890	1,254,393	507,538	1,761,931	7,365,821
Depreciation	316,807	23,762	9,433	350,002	68,511	7,300	75,811	425,813
Total operating expenses	4,462,838	1,324,289	166,765	5,953,892	1,322,904	514,838	1,837,742	7,791,634
Other components of net periodic post-retirement costs	7,359	162	517	8,038	9,159	150	9,309	17,347
Total expenses	<u>\$ 4,470,197</u>	<u>\$ 1,324,451</u>	<u>\$ 167,282</u>	<u>\$ 5,961,930</u>	<u>\$ 1,332,063</u>	<u>\$ 514,988</u>	<u>\$ 1,847,051</u>	<u>\$ 7,808,981</u>

See notes to consolidated financial statements

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended October 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$(1,042,621)	\$ 5,055,331
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	497,410	425,813
(Gain) loss on disposal of property, buildings, and equipment	(3,144,528)	381,367
Investment (gain) loss	1,822,487	(1,644,137)
Change in value of beneficial interest in trusts	3,302,763	(2,710,868)
Donated property, buildings, and equipment	(18,276)	(80,708)
Contributions received for long-term purposes	(4,661)	(201)
Contributions of beneficial interest in trusts held by trustees	(259,754)	(624,346)
Changes in operating assets and liabilities:		
Accounts receivable	(327,012)	(78,719)
Prepaid expenses and other assets	86,448	(52,480)
Deposits held by others	70,547	(85,061)
Accounts payable	(72,729)	29,547
Accrued expenses and other liabilities	(39,843)	14,103
Post retirement benefit obligation	(239,693)	76,950
Net Cash Provided by Operating Activities	<u>630,538</u>	<u>706,591</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,583,747)	(156,956)
Proceeds from sales of investments	85,216	102,673
Proceeds from sale of property, buildings, and equipment	3,862,250	67,914
Purchases of property, buildings, and equipment	(592,210)	(1,360,683)
Net Cash Provided (Used) by Investing Activities	<u>1,771,509</u>	<u>(1,347,052)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received for long-term purposes	4,661	201
Net Cash Provided by Financing Activities	<u>4,661</u>	<u>201</u>
Net Change in Cash and Cash Equivalents	2,406,708	(640,260)
Cash and Cash Equivalents, Beginning of Year	<u>2,479,097</u>	<u>3,119,357</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 4,885,805</u></u>	<u><u>\$ 2,479,097</u></u>

See notes to consolidated financial statements

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

1. NATURE OF ORGANIZATION:

The Tennessee Baptist Children's Homes, Inc. (TBCH), is an institution of the Tennessee Baptist Convention that provides free Christ-centered, nurturing homes for children in hard places across Tennessee.

TBCH's Residential Care program provides on-campus Christ-centered homes for children who are not in state custody and whose families cannot provide the care they need. Christian couples serve as house parents in these family-style homes for up to eight resident children, providing a safe environment in which children can thrive and be guided by biblical principles and direction.

Through TBCH's George Shinn Foster Care Program, the Children's Homes partners with Tennessee's Department of Children's Services to provide certified foster families and quality case management for children in state custody. TBCH provides these services at no cost to the State so that evangelical Christian couples may be carefully selected by TBCH to serve as foster parents. This allows children placed in these homes to be cared for physically as well as spiritually. This program includes training, support, direction, and advocacy for these homes by qualified and dedicated TBCH Foster Care Case Managers.

TBCH's Family Care program seeks to work with churches and other organizations to create a network of local resources in communities across the state. By connecting families to counseling services, parenting training, and other church ministries, this program changes the trajectory of families in need of these resources for the better.

TBCH's primary sources of support is contributions from churches (both directly and through the Cooperative Program of the Tennessee Baptist Convention). TBCH has received a determination letter that it is generally exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (Code) and comparable state law and is classified as a publicly supported organization, which is not a private foundation, under section 509(a)(1) of the Code. However, income from certain activities not directly related to TBCH's tax-exempt purpose is subject to taxation as unrelated business income. TBCH has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the consolidated financial statements regarding the *Income Tax* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). TBCH does not have any outstanding interest or penalties, and none have been recorded in the consolidated statements of activities for the years ended October 31, 2022 and 2021.

Effective February 2022, TBCH established 1911 Corporation (1911), a for-profit domestic corporation, to support the developing of the TBCH Brentwood campus. 1911 issued 1,000 common shares, all of which are held by TBCH. 1911 has been consolidated in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the consolidated statements to the reader.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the operations of TBCH and 1911, hereinafter referred to as TBCH. All significant intercompany transactions and balances have been eliminated from the consolidated financial statements.

ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and deposits in banks. Cash equivalents also include, when applicable, short-term highly liquid debt securities that are both readily convertible to cash and have an original maturity of three months or less. TBCH maintains cash and cash equivalents in financial institutions which may, at times, exceed federally insured or protected limits. Deposits in excess of federally insured and protected limits were \$4,625,401 and \$2,479,097 at October 31, 2022 and 2021, respectively. TBCH has not experienced any losses on such accounts.

ACCOUNTS RECEIVABLE

Accounts receivable includes accrued interest income as well as outstanding Cooperative Program distributions from the Tennessee Baptist Convention, of which TBCH has an unconditional right to receive. Based upon past experience, management believes that all accounts receivable are fully collectible. Therefore, no allowance for doubtful accounts is recorded in the accompanying consolidated financial statements.

INVESTMENTS

Investments in stocks, mutual funds, money market funds, and certificates of deposit are stated at fair value based upon quoted market prices. Other investments include insurance policies carried at cash surrender value. Donated investments are recorded at market value at the date of donation and thereafter carried in conformity with the stated policy.

Interest and dividend income and the realized and unrealized gain or loss on investments are reported in the consolidated statements of activities as investment income without donor restrictions unless a donor or law restricts its use for a period of time or in perpetuity.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY, BUILDINGS, AND EQUIPMENT

Property, plant, and equipment are recorded at historical cost. Donated plant assets are recorded at fair market value determined at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 5 to 40 years. TBCH capitalizes all purchases with a cost greater than \$5,000 and an expected useful life greater than one year.

BENEFICIAL INTEREST IN TRUSTS HELD BY TRUSTEES

Beneficial interest in trusts represent funds held and administered by trustees in accordance with the terms of various trust instruments and include 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 in the form of annual distributions, which are recorded as income from beneficial interest in trusts on the consolidated statements of activities.

CLASSES OF NET ASSETS

The consolidated financial statements report amounts separately by class of net assets:

Net assets without donor restrictions are not subject to donor-imposed stipulations, may be designated for specific purposes by action of TBCH's board of trustees, may otherwise be limited by contractual agreements with outside parties, or invested in property and equipment.

Net assets with donor restrictions are stipulated by donors for specific operating purposes or the acquisition of property and equipment, are time-restricted, or are required by donors to be held in perpetuity with investment return used for operations and other restricted purposes.

REVENUES, EXPENSES, AND RECLASSIFICATIONS

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to TBCH. Conditional promises to give with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

TBCH reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUES, EXPENSES, AND RECLASSIFICATIONS, continued

TBCH reports gifts of land, buildings, and equipment as support without donor restrictions 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 and other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how those long-lived assets must be maintained, TBCH reports expirations of donor restrictions when donated or acquired assets have been placed in service.

Contributions of non-financial assets are recognized at fair value at the date of the gift. Valuation techniques consist of:

<u>Non-financial contributions category</u>	<u>Valuation</u>
Labor	Cost charged to a customer for the service provided in a normal transaction
Tuition	Tuition rate for the same level of student at the educational institution providing the service
Office space	Similar properties available in commercial real estate listings
Food and produce	\$20 per plastic bag and \$30 per paper bag
Household goods, clothing, and supplies	Retail prices of identical or similar products or a reduced rate if the item is used
Property, buildings, and equipment	Standard industry pricing for similar or identical assets
Other	Standard industry pricing for similar or identical products

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the various program services and supporting activities are summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Salaries, benefits and payroll taxes are allocated to the functions where time and effort are expended. Depreciation and other facility-related expenses are allocated based upon an analysis of usage of space. All other natural classifications presented in the consolidated statements of functional expenses are allocated based upon an analysis of the specific activities.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING AND NONOPERATING ACTIVITIES

The consolidated statements of activities presents the changes in net assets of TBCH from both operating activities and nonoperating activities. Operating revenues and expenses relate primarily to program services provided by TBCH. The portion of investment return appropriated for operations on long-term investments held for endowments and similar purposes under TBCH's total return spending policy is considered operating revenue. Activity with donor restrictions is not considered to be operating.

Nonoperating activities consist primarily of (a) other components of net periodic post-retirement costs, (b) post-retirement related changes other than net periodic post-retirement costs, (c) contributions of beneficial interest in trusts, and (d) the change in value of beneficial interest in trusts.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In September 2020, the FASB issued Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. TBCH adopted the provisions of the new standard during the year ended October 31, 2022. The standard requires nonprofits to present contributed nonfinancial assets as a separate line item in the consolidated statements of activities, apart from contributions of cash or other nonfinancial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the consolidated financial statements, with the exception of increased disclosure.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

3. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following reflects TBCH's financial assets as of October 31, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date. TBCH considers general expenditures to include all expenditures relating to its ongoing program activities relating to residential, family, and foster care. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

	October 31,	
	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 4,885,805	\$ 2,479,097
Accounts receivable	598,361	271,349
Investments	12,309,534	12,633,490
Financial assets, at year-end	<u>17,793,700</u>	<u>15,383,936</u>
Less those unavailable for general expenditure within one year due to:		
Contractual or donor-imposed restrictions:		
Restricted by donors with purpose or time	(69,355)	(55,091)
Perpetual endowments and accumulated earnings		
subject to appropriation beyond one year	<u>(4,755,841)</u>	<u>(4,903,429)</u>
	<u>(4,825,196)</u>	<u>(4,958,520)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,968,504</u>	<u>\$ 10,425,416</u>

TBCH is also the beneficiary of various perpetual trusts created by donors, the assets of which are not in TBCH's possession. TBCH has legally enforceable rights or claims to the annual distributions from these assets, which are recorded as income from beneficial interests in trusts on the consolidated statements of activities. TBCH has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

4. INVESTMENTS:

Investments consist of:

	October 31,	
	2022	2021
Held at fair value:		
Mutual funds	\$ 5,012,206	\$ 6,432,484
Certificates of deposit	3,723,735	4,099,591
Money market funds	1,014,559	1,010,191
Interest in pooled funds of the Southern Baptist Foundation	283,629	357,733
Stocks	56,270	5,859
	<u>10,090,399</u>	<u>11,905,858</u>
Held at cost:		
Cash and cash equivalents	2,200,228	709,328
Cash surrender value of life insurance	18,907	18,304
	<u>2,219,135</u>	<u>727,632</u>
	<u>\$ 12,309,534</u>	<u>\$ 12,633,490</u>

Investments are held for the following purposes:

	October 31,	
	2022	2021
Held for operations	\$ 7,553,693	\$ 7,730,061
Held for endowments	4,755,841	4,903,429
	<u>\$ 12,309,534</u>	<u>\$ 12,633,490</u>

Investment income consists of:

	Year Ended October 31,	
	2022	2021
Dividends and interest, net of fees	\$ 273,969	\$ 113,138
Realized gains	280,739	287,424
Unrealized gains (losses)	(2,103,226)	1,356,713
	<u>\$ (1,548,518)</u>	<u>\$ 1,757,275</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

5. PROPERTY, BUILDINGS, AND EQUIPMENT—NET:

Property, buildings, and equipment—net consists of:

	October 31,	
	2022	2021
Land	\$ 2,828,626	\$ 2,847,962
Buildings	10,823,669	10,857,139
Improvements other than buildings	1,545,147	1,443,087
Furnishings and equipment	495,043	593,913
Other machinery and equipment	722,765	686,253
Vehicles	809,420	761,356
Construction in progress	396,488	195,718
	<u>17,621,158</u>	<u>17,385,428</u>
Less accumulated depreciation	<u>(11,091,066)</u>	<u>(10,918,590)</u>
	<u><u>\$ 6,530,092</u></u>	<u><u>\$ 6,466,838</u></u>

TBCH has \$1,705,168 of land with donor restrictions. If TBCH sales the land, the donor restriction requires any sales proceeds to be used in Shelby County Tennessee.

TBCH has property held for sale with a basis totaling \$75,000 and \$667,081 as of October 31, 2022 and 2021, respectively.

6. BENEFICIAL INTEREST IN TRUSTS HELD BY TRUSTEES:

TBCH records the following beneficial interest in trusts at their fair value as follows:

	October 31,	
	2022	2021
Residual trusts	<u>\$ 134,796</u>	<u>\$ 147,040</u>
Perpetual trusts held by outside trustees:		
Tennessee Baptist Foundation as trustee	14,001,420	16,095,839
Other trustees	4,200,163	5,157,731
	<u>18,201,583</u>	<u>21,253,570</u>
	<u><u>\$ 18,336,379</u></u>	<u><u>\$ 21,400,610</u></u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

7. POST-RETIREMENT BENEFIT OBLIGATION:

DEFINED BENEFIT PLAN

TBCH provides retirement severance benefits to all retiring employees. In addition, TBCH provides post-retirement health care and term life insurance benefits to certain retired TBCH employees. These benefits will not be extended to current or future employees. In calculating the various components of the requirements, TBCH has assumed most employees will retire at age 65. Life expectancies for each employee, as well as expected actual cost of premiums, were projected by the insurance provider. TBCH is financing the post-retirement benefits on a pay-as-you-go basis.

A summary of the post-retirement benefit obligation associated with TBCH's defined benefit plan is as follows:

	October 31,	
	2022	2021
Inactive retired participants	\$ 358,189	\$ 578,530
Active fully eligible participants	68,416	46,268
Other active participants	202,966	244,466
	<u>\$ 629,571</u>	<u>\$ 869,264</u>

The following tables provide a reconciliation of the changes in the post-retirement benefit obligation and the assumptions used in the actuarial calculations.

Benefit obligation at beginning of year:	\$ 869,264	\$ 792,314
Net periodic post-retirement costs	40,341	36,410
Post-retirement related changes other than net periodic post-retirement cost	(241,642)	84,160
Benefits paid	<u>(38,392)</u>	<u>(43,620)</u>
Post-retirement benefit obligation at end of year	<u>\$ 629,571</u>	<u>\$ 869,264</u>
Net periodic post-retirement cost, included in functional expenses:		
Service cost	<u>\$ 21,867</u>	<u>\$ 19,063</u>
Interest costs	<u>18,474</u>	<u>17,347</u>
Net periodic post-retirement cost other than service cost	<u>18,474</u>	<u>17,347</u>
Net periodic post-retirement costs	<u>\$ 40,341</u>	<u>\$ 36,410</u>

Net periodic post-retirement cost other than service cost is reported as other components of net periodic post-retirement cost on the consolidated statements of activities.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

7. POST-RETIREMENT BENEFIT OBLIGATION, continued:

DEFINED BENEFIT PLAN, continued

Post-retirement related changes other than net periodic post-retirement cost, included in nonoperating activities, are as follows:

	October 31,	
	2022	2021
Change in discount rate assumption	\$ (167,176)	\$ 4,429
Change in other economic assumptions	1,121	7,409
Change in demographic assumptions	245	4,133
Actuarial (gain) loss	(75,832)	68,189
	<u>\$ (241,642)</u>	<u>\$ 84,160</u>

Assumptions are made using the weighted-average and assumed annual increases are as follows:

	October 31,	
	2022	2021
Discount rate	5.55%	2.18%
Projected health care trend rate (Post-65 Medical/Rx)	3.80% - 6.50%	3.90% - 6.74%
Ultimate rate—Post-65 (Medical/Rx)	3.90% - 4.90%	3.90% - 4.90%
Year ultimate trend rate is achieved	2030	2028
Future compensation levels	2.50%	2.50%

The mortality basis for the years ended October 31, 2022 and 2021, is based upon Pri-2012 projected from 2012 to 2021 using the MP-2021 projection scale, respectively.

Future benefits are expected to be paid as follows:

Years Ending October 31,	Amounts
2023	\$ 107,050
2024	82,732
2025	36,990
2026	35,778
2027	106,336
2028-2032	<u>270,553</u>
	<u>\$ 639,439</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

7. POST-RETIREMENT BENEFIT OBLIGATION, continued:

RETIREMENT PLAN

TBCH 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. TBCH 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. Retirement expense totaled \$282,385 and \$259,164 during the years ended October 31, 2022 and 2021, respectively.

DEFERRED COMPENSATION PLAN

TBCH 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 \$42,487 and \$41,246 during the years ended October 31, 2022 and 2021, respectively. The related liability is included in accrued expenses and other liabilities on the consolidated statements of financial position.

8. NET ASSETS:

Net assets consist of:

	October 31,	
	2022	2021
Net assets without donor restrictions:		
Undesignated net assets	\$ 16,221,732	\$ 14,058,888
Net assets with donor restrictions:		
Restricted by purpose or time:		
Program restrictions	2,496,462	2,490,107
Accumulated earnings on endowments	(63,270)	88,979
Residual trusts, time restricted	134,795	147,040
	<u>2,567,987</u>	<u>2,726,126</u>
Restricted in perpetuity:		
Endowment funds	4,819,111	4,814,450
Perpetual trusts	18,201,583	21,253,570
	<u>23,020,694</u>	<u>26,068,020</u>
Total net assets with donor restrictions	<u>25,588,681</u>	<u>28,794,146</u>
Total net assets	<u>\$ 41,810,413</u>	<u>\$ 42,853,034</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

9. ENDOWMENT FUNDS:

TBCH's 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.

The board of trustees of TBCH has interpreted the State of Tennessee's Uniform Prudent Management of Institutional Funds Act (SUPMIFA) as requiring the preservation of the fair value 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, TBCH classifies as net assets with donor restrictions in perpetuity (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 net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions by purpose or time until those amounts are appropriated for expenditure by TBCH in a manner consistent with the standard of prudence prescribed by SUPMIFA.

In accordance with SUPMIFA, TBCH considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of TBCH and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of TBCH
7. The investment policies of TBCH

Endowment net asset composition by type of fund as of October 31, 2022:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Earnings	Original Gift	
Donor-restricted funds	\$ -	\$ (63,270)	\$ 4,819,111	\$ 4,755,841

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

9. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for year ended October 31, 2022:

	With Donor Restrictions		
	Accumulated Earnings	Original Gift	Total
Endowment net assets, beginning of year	\$ 88,979	\$ 4,814,450	\$ 4,903,429
Investment return:			
Dividend and interest income	51,248	-	51,248
Net losses (realized and unrealized)	(152,249)	-	(152,249)
	(101,001)	-	(101,001)
Other changes:			
Contributions	-	4,661	4,661
Amounts appropriated for expenditure	(51,248)	-	(51,248)
	(51,248)	4,661	(46,587)
Endowment net assets, end of year	\$ (63,270)	\$ 4,819,111	\$ 4,755,841

Endowment net asset composition by type of fund as of October 31, 2021:

	Without Donor Restrictions	With Donor Restrictions		
		Accumulated Earnings	Original Gift	Total
Donor-restricted funds	\$ -	\$ 88,979	\$ 4,814,450	\$ 4,903,429

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

9. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for year ended October 31, 2021:

	With Donor Restrictions		
	Accumulated Earnings	Original Gift	Total
Endowment net assets, beginning of year	\$ 112,015	\$ 4,814,249	\$ 4,926,264
Investment return:			
Dividend and interest income	58,120	-	58,120
Net losses (realized and unrealized)	(23,036)	-	(23,036)
	35,084	-	35,084
Other changes:			
Contributions	-	201	201
Amounts appropriated for expenditure	(58,120)	-	(58,120)
	(58,120)	201	(57,919)
Endowment net assets, end of year	\$ 88,979	\$ 4,814,450	\$ 4,903,429

Return objectives and risk parameters:

TBCH's investment and spending policies for endowment assets attempt to provide a stream of funding for its programs. Endowment assets include those assets of donor-restricted funds that TBCH 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. TBCH expects its endowment funds to provide the maximum attainable current yield while assuming a minimum level of investment risk.

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 SUPMIFA requires TBCH to retain as a fund of perpetual duration. As of October 31, 2022, deficiencies of this nature exist in 47 funds, which together have an original gift value of \$4,788,062 a fair value of \$4,665,954 and a deficiency of \$122,108. The deficiencies resulted from unfavorable market conditions.

Strategies employed for achieving objectives:

To satisfy its objectives, TBCH relies on a strategy in which investment returns are achieved through current yield (interest and dividends). TBCH does not invest in companies or industries whose known products, services, or practices are contrary to the beliefs or practices of Southern Baptists.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

9. ENDOWMENT FUNDS, continued:

Spending policies and how the investment objectives relate to spending policy:

TBCH has a practice of appropriating the current earnings for distribution annually. In establishing this practice TBCH considered the critical need for annual income as well as the existence of non-endowment investments. This is consistent with TBCH objectives of achieving high current return and preservation of capital.

10. FAIR VALUE MEASUREMENTS:

The *Fair Value Measurements and Disclosure* topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. TBCH uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, TBCH measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Fair values of assets measured on a recurring basis as of October 30, 2022 and 2021, are as follows:

	Fair Value Measurements at October 31, 2022			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	\$ 5,012,206	\$ -	\$ -	\$ 5,012,206
Certificates of deposit	3,723,735	-	-	3,723,735
Money market funds	1,014,559	-	-	1,014,559
Interest in pooled funds of the Southern Baptist Foundation	-	283,629	-	283,629
Stocks	56,270	-	-	56,270
Total investments	<u>\$ 9,806,770</u>	<u>\$ 283,629</u>	<u>\$ -</u>	<u>\$ 10,090,399</u>
Beneficial interest in trusts held by trustees	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,336,379</u>	<u>\$ 18,336,379</u>

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

10. FAIR VALUE MEASUREMENTS, continued:

	Fair Value Measurements at October 31, 2021			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	\$ 6,432,484	\$ -	\$ -	\$ 6,432,484
Certificates of deposit	4,099,591	-	-	4,099,591
Money market funds	1,010,191	-	-	1,010,191
Interest in pooled funds of the Southern Baptist Foundation	-	357,733	-	357,733
Stocks	5,859	-	-	5,859
Total investments	<u>\$ 11,548,125</u>	<u>\$ 357,733</u>	<u>\$ -</u>	<u>\$ 11,905,858</u>
Beneficial interest in trusts held by trustees	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,400,610</u>	<u>\$ 21,400,610</u>

Methods and assumptions used by TBCH in estimating fair values are as follows:

Mutual funds, certificates of deposit, money market funds, and stocks—The fair value of these financial instruments is based upon quoted market prices or dealer quotes in an active market.

Interest in pooled funds of the Southern Baptist Foundation—The fair value of these financial instruments is based upon TBCH's per share interest in the pooled fund as reported by the Southern Baptist Foundation. TBCH is able to redeem its investment in the pool at the reporting date.

Beneficial interest in trusts held by trustees—The fair value of beneficial interest in trusts held by others is based on the value of TBCH's proportional share of the overall assets held by the other organizations.

Changes in valuation techniques—None.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

10. FAIR VALUE MEASUREMENTS, continued:

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs as of October 31, 2022 and 2021:

Beneficial interest in trusts held by trustees:	
Balance, November 1, 2020	\$ 18,065,396
Contributions of beneficial interest in trusts held by trustees	624,346
Change in value of beneficial interest in trusts	<u>2,710,868</u>
Balance, October 31, 2021	<u>\$ 21,400,610</u>
Beneficial interest in trusts held by trustees:	
Balance, November 1, 2021	\$ 21,400,610
Contributions of beneficial interest in trusts held by trustees	259,754
Transfers to residual trust	(21,222)
Change in value of beneficial interest in trusts	<u>(3,302,763)</u>
Balance, October 31, 2022	<u>\$ 18,336,379</u>

11. RELATED PARTY DISCLOSURE:

Tennessee Baptist Convention (Convention): The Convention is comprised of messengers from cooperating churches seeking to minister together for the purpose of carrying out the Great Commission. Tennessee Baptists, acting in Convention in 1894, by unanimous action, made TBCH an institution of the Convention, thereby committing the Convention to ministering to children. Since making this commitment, Tennessee Baptists have provided prayer support and financial resources to support TBCH in meeting the growing needs of children and families in crisis through Residential Care, Foster Care, Family Care, and adoption related services. The entities have entered into a covenant, committing to each other their mutual goals, aspirations, and desire to spread the gospel of Christ throughout Tennessee, North America, and the world.

The Convention supports TBCH through the Cooperative Program. TBCH relates to the Convention through the Tennessee Baptist Mission Board's Partner Ministries Committee, or its successor committee. TBCH supports the ministries of the Convention through promotion of Cooperative Program and through participation in those ministries. TBCH commits to the process of trustee selection established by the Convention.

TBCH is an autonomous nonprofit corporation, neither owned nor operated by the Convention. Governance of TBCH is vested in its board of trust in all matters.

TBCH received from the Tennessee Baptist Mission Board \$2,758,202 and \$2,863,608 in Cooperative Program and contributions for TBCH for the years ended October 31, 2022 and 2021, respectively.

TENNESSEE BAPTIST CHILDREN'S HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

11. RELATED PARTY DISCLOSURE, continued:

The Tennessee Baptist Foundation, an institution of the Convention, serves as trustee of funds and trusts in which TBCH has beneficial interests, as disclosed in Note 6.

TBCH received from the Tennessee Baptist Foundation \$405,790 and \$393,198 in income from trusts for the years ended October 31, 2022 and 2021, respectively.

12. COMMITMENTS AND CONTINGENCIES:

TBCH is licensed by the Tennessee Department of Children's Services (DCS) as a Residential Child Caring Agency and a Child-Placing Agency. Compliance, as evidenced by annual inspections, with Tennessee's legislative regulations is required for annual licensing renewal. TBCH also provides foster care services. The primary focus of TBCH's George Shinn Foster Care Program is a contract with DCS under which TBCH provides services to foster families and to the state-custody foster children in their care. TBCH does not receive compensation from the DCS for the services provided and the DCS makes foster care stipend payments directly to the foster families.

13. CONTRIBUTIONS OF NON-FINANCIAL ASSETS:

Contributions of non-financial assets included in the consolidated financial statements were as follows:

	Year Ended October 31,	
	2022	2021
Services (labor, tuition, and office space)	\$ 67,113	\$ 80,899
Food and produce	52,709	61,423
Household goods, clothing, and supplies	29,668	31,452
Property, buildings, and equipment	18,276	80,708
Other	8,776	30,716
	<u>\$ 176,542</u>	<u>\$ 285,198</u>

14. SUBSEQUENT EVENTS:

Effective February 2023, TBCH sold certain land and buildings for approximately \$7,000,000.

Subsequent events have been evaluated through April 6, 2023, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.