

***BAPTIST CHILDREN'S HOMES
OF NORTH CAROLINA, INC.***

***FINANCIAL STATEMENTS
SEPTEMBER 30, 2022***

BAPTIST CHILDREN’S HOMES OF NORTH CAROLINA, INC.

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September 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Baptist Children's Homes of North Carolina, Inc.
Thomasville, North Carolina

Opinion

We have audited the accompanying financial statements of Baptist Children's Homes of North Carolina, Inc. ("BCH" - a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Baptist Children's Homes of North Carolina, Inc. as of September 30, 2022, 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.

Basis of 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 Financial Statements section of our report. We are required to be independent of Baptist Children's Homes of North Carolina, Inc. 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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, including omissions, 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 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 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 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 purposes of expressing an opinion on the effectiveness of Baptist Children's Homes of North Carolina, Inc.'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Baptist Children's Homes of North Carolina, Inc.'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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of State awards, as required by *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2022, on our consideration of Baptist Children's Homes of North Carolina, Inc. internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Baptist Children's Homes of North Carolina, Inc. internal control over financial reporting and compliance.

Baptist Children's Homes of North Carolina, Inc.
Thomasville, North Carolina

Report on Summarized Comparative Information

We have previously audited BCH's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 22, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

C. Denlitt Ford & Company, P.A.
December 22, 2022

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Financial Position****September 30, 2022, With Prior Year Comparative Totals**

	2022	2021
<u>ASSETS</u>		
Cash and cash equivalents	\$ 16,608,324	\$ 13,468,434
Accounts receivable, net	1,211,156	1,144,873
Sales tax refunds receivable	69,117	48,168
Unconditional promises to give, net	256,240	779,494
Investments:		
Pooled assets	29,431,724	36,565,566
Non-pooled assets	4,020,293	4,943,605
Real estate held for investment	270,120	716,650
Student loans receivable, net	316,058	367,922
Prepaid expenses	352,839	209,963
Cash surrender value of life insurance	79,286	75,638
Property and equipment, net	18,136,874	15,067,339
<u>TOTAL ASSETS</u>	\$ 70,752,031	\$ 73,387,652
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,241,409	\$ 1,165,095
Annuities payable	570,725	679,245
Notes payable	422,532	422,532
Total Liabilities	2,234,666	2,266,872
Net Assets:		
Without Donor Restrictions:		
Designated	25,847,619	33,258,038
Undesignated	20,378,803	13,910,447
Total Net Assets Without Donor Restrictions	46,226,422	47,168,485
With donor restrictions	22,290,943	23,952,295
Total Net Assets	68,517,365	71,120,780
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 70,752,031	\$ 73,387,652

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Activities****Year Ended September 30, 2022, With Prior Year Comparative Totals**

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2022	2021
<u>SUPPORT AND REVENUE</u>				
Cooperative program offering	\$ 1,840,015	\$ 1,013,040	\$ 2,853,055	\$ 2,607,772
Contributions:				
Church offerings	4,395,677	-	4,395,677	3,774,102
Estate gifts and bequests:				
Cash and promises	947,136	-	947,136	1,421,065
In-kind	37,600	-	37,600	402,388
Other gifts:				
Cash and promises	12,199,661	2,744,779	14,944,440	16,776,126
In-kind	1,433,050	-	1,433,050	1,175,887
Inherent contribution from CAS	-	-	-	919,186
Program service fees	9,766,314	-	9,766,314	9,604,926
Weekday education	672,893	-	672,893	1,039,888
Miscellaneous	24,914	466,761	491,675	102,824
Rent income	415,283	-	415,283	432,306
Gain on disposal of equipment	-	30,700	30,700	673,289
Investment income	(6,253,654)	(1,402,980)	(7,656,634)	6,362,495
Net assets released from restrictions:				
Satisfaction of time restrictions	95,568	(95,568)	-	-
Restrictions satisfied by payments	4,418,084	(4,418,084)	-	-
<i>TOTAL SUPPORT AND REVENUE</i>	<i>29,992,541</i>	<i>(1,661,352)</i>	<i>28,331,189</i>	<i>45,292,254</i>
<u>EXPENSES</u>				
Program Services:				
Weekday education	1,190,897	-	1,190,897	1,460,337
Family services	9,706,331	-	9,706,331	10,408,333
Enrichment activities	493,075	-	493,075	411,517
Group homes	1,145,887	-	1,145,887	895,716
Adoption services	2,801,445	-	2,801,445	2,305,628
Foster care	3,598,293	-	3,598,293	2,195,214
Wilderness camps	2,629,301	-	2,629,301	2,825,322
Developmentally Disabled Ministries	2,987,098	-	2,987,098	2,675,814
Special Ministries	1,002,992	-	1,002,992	918,806
N.C. Baptist Aging Ministry	989,662	-	989,662	908,241
Emergency Care	761,452	-	761,452	866,058
Scholarships and grants awarded	276,431	-	276,431	259,922
Total Program Services	27,582,864	-	27,582,864	26,130,908
Management and general	1,448,118	-	1,448,118	1,130,151
Fundraising	1,903,622	-	1,903,622	1,773,074
<i>TOTAL EXPENSES</i>	<i>30,934,604</i>	<i>-</i>	<i>30,934,604</i>	<i>29,034,133</i>
<i>CHANGE IN NET ASSETS</i>	<i>(942,063)</i>	<i>(1,661,352)</i>	<i>(2,603,415)</i>	<i>16,258,121</i>
<i>NET ASSETS, BEGINNING</i>	<i>47,168,485</i>	<i>23,952,295</i>	<i>71,120,780</i>	<i>54,862,659</i>
<i>NET ASSETS, ENDING</i>	<i>\$ 46,226,422</i>	<i>\$ 22,290,943</i>	<i>\$ 68,517,365</i>	<i>\$ 71,120,780</i>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Functional Expenses****Year Ended September 30, 2022, With Prior Year Comparative Totals**

	Program Services							
	Weekday Education	Family Services	Enrichment Activities	Group Homes	Adoption Services	Foster Care	Emergency Care	Wilderness Camps
PERSONNEL								
Salaries and wages	\$ 697,700	\$ 4,412,429	\$ 28,599	\$ 706,999	\$ 1,159,934	\$ 1,422,833	\$ 366,714	\$ 1,217,698
Benefits and taxes	205,672	1,435,490	41,782	214,851	261,483	535,296	208,022	490,012
Total Personnel	903,372	5,847,919	70,381	921,850	1,421,417	1,958,129	574,736	1,707,710
OTHER EXPENSES								
Utilities and insurance	40,200	553,146	220,435	27,288	44,354	37,857	51,855	135,607
Depreciation	41,327	464,416	80,648	27,086	47,170	124,493	-	161,124
Repairs & maintenance	73,697	1,074,051	97,603	30,382	12,455	221,477	30,594	255,744
Travel and auto	6,302	328,414	-	27,912	115,808	96,293	298	78,019
Other	20,551	192,097	845	17,851	431,409	25,224	14,400	28,962
Food	56,775	465,437	12	29,668	23,161	11,152	25,398	94,475
Postage & printing	65	18,701	-	45	19,105	3,078	21	2,845
Supplies	21,253	260,253	9,806	23,748	36,183	31,250	19,177	69,085
Child care	883	171,249	1,211	13,174	177,412	1,007,284	23,000	10,740
Telephone	7,869	70,655	5,632	4,862	17,310	25,545	3,774	17,034
Information technology	12,212	126,614	6,502	13,650	24,115	21,255	5,950	39,540
Membership & training	4,164	63,004	-	719	65,526	30,720	171	21,324
Legal and accounting	2,227	13,534	-	-	7,665	3,109	-	3,443
Clothing	-	56,841	-	7,652	-	1,427	12,078	3,649
Scholarships & grants	-	-	-	-	358,355	-	-	-
TOTAL EXPENSES	\$ 1,190,897	\$ 9,706,331	\$ 493,075	\$ 1,145,887	\$ 2,801,445	\$ 3,598,293	\$ 761,452	\$ 2,629,301

Program Services							Totals	
Special Ministries	Developmentally Disabled Ministry	NC Baptist Aging Ministry	Scholarships Awarded	Total	Management and General	Fundraising	2022	2021
\$ 328,314	\$ 1,582,464	\$ 465,730	\$ -	\$ 12,389,414	\$ 833,931	\$ 840,918	\$ 14,064,263	\$ 13,177,590
85,729	434,241	161,724	-	4,074,302	105,652	189,354	4,369,308	4,558,915
414,043	2,016,705	627,454	-	16,463,716	939,583	1,030,272	18,433,571	17,736,505
35,451	96,956	4,661	-	1,247,810	61,898	11,427	1,321,135	1,231,830
64,841	149,705	26,305	-	1,187,115	49,277	41,401	1,277,793	1,338,180
103,643	302,428	92,919	-	2,294,993	59,317	9,789	2,364,099	2,134,341
23,583	107,056	44,452	-	828,137	31,163	86,795	946,095	657,681
14,712	46,655	85,078	-	877,784	35,249	146,093	1,059,126	864,708
100,657	80,026	16,446	-	903,207	5,062	15,046	923,315	1,218,326
2,972	2,490	46,324	-	95,646	7,909	467,167	570,722	572,808
220,949	33,076	11,862	-	736,642	39,892	12,796	789,330	790,165
345	53,315	500	-	1,459,113	14,183	850	1,474,146	1,059,824
6,171	33,210	10,033	-	202,095	23,011	11,887	236,993	235,420
13,027	53,110	7,790	-	323,765	104,622	48,436	476,823	412,462
1,598	8,969	14,451	-	210,646	56,693	20,639	287,978	256,549
-	3,397	1,387	-	34,762	20,259	1,024	56,045	49,004
-	-	-	-	81,647	-	-	81,647	98,032
1,000	-	-	276,431	635,786			635,786	378,298
\$ 1,002,992	\$ 2,987,098	\$ 989,662	\$ 276,431	\$ 27,582,864	\$ 1,448,118	\$ 1,903,622	\$ 30,934,604	\$ 29,034,133

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Cash Flows****Year Ended September 30, 2022, With Prior Year Comparative Totals**

OPERATING ACTIVITIES

Change in net assets	\$ (2,603,415)	\$ 16,258,121
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation expense	1,277,793	1,338,180
Gain on disposal of equipment	(30,700)	(673,289)
Contributions restricted for long-term purposes	(2,724,447)	(4,555,497)
Contributions of real estate held for investment	(37,600)	(402,388)
Realized and unrealized gains on investments	8,636,052	(5,717,343)
Change in value of annuities payable	(108,520)	(50,390)
(Increase) decrease in operating assets:		
Accounts receivable	(66,283)	(268,789)
Sales tax refunds receivable	(20,949)	(6,504)
Unconditional promises to give	523,254	(440,993)
Prepaid expenses	(142,876)	(116,087)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	76,314	279,175
Refundable advance	-	(3,194,000)
<i>Cash Flows From Operating Activities</i>	<i>4,778,623</i>	<i>2,450,196</i>

INVESTING ACTIVITIES

Proceeds from sale of investments	2,357,773	7,432,769
Acquisition of investments	(2,452,541)	(10,224,875)
Issuance of student loans, net of repayments	51,864	(7,159)
Proceeds from disposal of property and equipment	8,500	1,021,238
Acquisitions of property and equipment	(4,325,128)	(1,242,995)
Decrease in cash surrender value of life insurance	(3,648)	87,361
<i>Cash Flows From Investing Activities</i>	<i>(4,363,180)</i>	<i>(2,933,661)</i>

FINANCING ACTIVITIES

Contributions restricted for long-term purposes	2,724,447	4,555,497
<i>Cash Flows From Financing Activities</i>	<i>2,724,447</i>	<i>4,555,497</i>

<i>CHANGE IN CASH AND CASH EQUIVALENTS</i>	<i>3,139,890</i>	<i>4,072,032</i>
<i>CASH AND CASH EQUIVALENTS, BEGINNING</i>	<i>13,468,434</i>	<i>9,396,402</i>
<i>CASH AND CASH EQUIVALENTS, ENDING</i>	<i>\$ 16,608,324</i>	<i>\$ 13,468,434</i>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.

Notes to Consolidated Financial Statements

September 30, 2022

NOTE 1 - ORGANIZATION AND PURPOSE

Nature of activities

Baptist Children's Homes of North Carolina, Inc. (BCH), which has locations throughout North Carolina, provides programs of intentionalized services to children and families experiencing family breakdown or who need to strengthen relationships. BCH is supported primarily through donor contributions, grants, and special service fees, all primarily originating in North Carolina. Additionally, BCH maintains funds to grant scholarships and provide educational loans to children in care and children of employees based on the criteria established by each individual donor.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under GAAP, BCH is required to report information regarding its net assets according to the following classifications:

Net assets without donor restrictions – These amounts are not subject to any donor-imposed stipulations and include resources invested in property. Net assets without donor restrictions can be designated by BHC's Board of Trustees. However, these funds have not been restricted by donors.

Net assets with donor restrictions – These amounts are subject to donor-imposed stipulations. These restrictions may be temporary in nature, with the restriction being met either by actions of BCH or the passage of time, or perpetual, such that the net assets will be held in perpetuity by BCH.

Contributions and program revenue

BCH 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 the purpose of the restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Program service fees and Weekday education tuition are recognized as a receivable and revenue when the services have been performed.

Principles of consolidation

These financial statements reflect the consolidated operations of Baptist Children's Homes of North Carolina, Inc. as stated above and its subsidiary, BCH Asheboro Home Inc. BCH Asheboro Home Inc. is a North Carolina corporation whose sole owner is BCH. BCH Asheboro Home Inc. was organized to enable BCH to receive financing from the U.S Department of Housing and Urban Development. All significant intercompany balances and transactions have been eliminated.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.

Notes to Consolidated Financial Statements

September 30, 2022

Cash and cash equivalents

Cash and cash equivalents include all financial institution checking accounts, money market funds, and certificates of deposit with original maturities of three months or less.

Accounts and notes receivable

Accounts and notes receivable consist of uncollateralized obligations from governmental agencies and parents of children in care. These receivables are stated at the amount invoiced. The carrying amount of accounts receivable is reduced by accounts considered uncollectible. Management individually reviews all accounts receivable aged in excess of 30 days from the invoice date and, based on an assessment of the borrower's current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Interest charges are not assessed on past due accounts. Accounts and notes receivable at year-end are net of an allowance for uncollectible amounts of \$50,000.

Promises to give

BCH recognizes unconditional promises to give as support in the period the promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. BCH uses the allowance method to determine uncollectible unconditional contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Long-term promises to give are presented without a discount to present value as this amount would be immaterial to these financial statements.

Student loans receivable

Student loans receivable consist of uncollateralized notes from individuals formerly in care or the parents of these individuals (affiliated) and from staff members or their dependents (unaffiliated) for the purpose of financing the costs of post-secondary education. These notes have varying repayment schedules with interest rates not exceeding 6.0%. Repayment of principal and interest begins one month after the student graduates from or otherwise leaves school. BCH uses the allowance method to determine uncollectible student loans and records an allowance for uncollectible accounts. This allowance is based on prior years' experience and management's analysis of individual loan accounts. Student loans receivable at year-end are net of an allowance for uncollectible accounts of \$3,227.

Investments

BCH carries investments in marketable equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

BCH maintains master investment accounts for their scholarship and loan, endowment, and plant funds. Realized and unrealized gains and losses from securities in the master investment account are allocated monthly to the individual account as allowed by donor restrictions based on the relationship of the fair value of each account to the total fair value of the master investment accounts, as adjusted or additions to or deductions from those accounts.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.

Notes to Consolidated Financial Statements

September 30, 2022

Donated services and goods

Donated services are reported as contributions when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Donated goods, if significant, are included in support at fair value. During the year, BCH recorded \$1,433,050 of donated goods and no donated services. Donated goods consisted of a roof replacement, real estate, clothing, gift cards, supplies and food. The value of the roof replacement was valued at the cost that would have been incurred if it were not donated. The real estate is valued at the property tax value at the date of donation. All other items are valued at the fair market value of the goods donated. The roof replacement, clothing, gift cards, supplies and food items are used for the Organization's program or supporting service activities. Real estate donated is held to be sold.

BCH receives a substantial amount of donated services from unpaid volunteers in carrying out its program activities. No amounts have been reflected in the financial statements for these services since they generally do not meet the criteria for recognition described above.

Property and equipment

Purchased fixed assets are carried at cost, and donated fixed assets are recorded at their fair market value at the date of the gift, both subject to a \$5,000 capitalization policy. Donations of property and equipment are reported as without donor restricted support unless the donor has restricted the donated asset to a specific purpose. During the year, BCH recorded \$531,880 of donated fixed assets.

Depreciation is provided using the straight-line method over the estimated useful lives. Maintenance, repair costs, and minor replacements are charged to expense as incurred. When assets are retired or otherwise disposed of, the costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected in current operations.

Functional allocation of expenses

BCH's activities are focused in three functional areas. Program services represent the primary focus of BCH's activities. Supporting services are fundraising activities and management and general activities. Personnel expenses are allocated based on management's estimate of time spent on the three functions. Occupancy expenses are allocated based on management's estimate of square footage used by each function. All other expenses are allocated based on an analysis of the various expenses that comprise those costs.

Use of estimates

The preparation of financial statements in conformity with GAAP 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 financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.

Notes to Consolidated Financial Statements

September 30, 2022

Income taxes

BCH is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charitable organization under Section 509(a)(1) of the Internal Revenue Code.

Use of estimates

The preparation of financial statements in conformity with GAAP 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 financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future accounting pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either financing or operating, with classifications affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021. It is expected that the implementation of this standard will result in an increase in assets and liabilities, but it will not result in a material change in net assets.

NOTE 3 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are receivable as follows:

Year ending September 30:

2023	\$ 272,401
2024	41,194
2025	<u>25,000</u>
	338,595
Less: Allowance for uncollectible contributions receivable	<u>82,355</u>
	<u><u>\$ 256,240</u></u>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2022**

NOTE 4 - PROPERTY AND EQUIPMENT

The principal categories and estimated useful lives of property and equipment at year-end are as follows:

	<u>Estimated Useful Lives</u>	
Land	-	\$ 3,444,227
Buildings and improvements	10-20 years	30,714,553
Furniture, equipment and vehicles	5-15 years	5,669,642
Land improvements	5 years	2,205,649
Construction in progress	-	<u>1,003,662</u>
		43,037,733
Less - accumulated depreciation		<u>24,900,859</u>
		<u>\$ 18,136,874</u>

BCH owns certain real estate with reversionary restrictions. Should these properties cease to be used for the original residential use intended, the ownership of these properties will revert back to the original donor or their designee. These properties have a carrying balance of \$633,308 as of year-end and are included in buildings and improvements shown above.

NOTE 5 - INVESTMENTS

Investments as of year-end consist of the following:

Pooled investments:

Mutual/Exchange Traded Funds	<u>\$ 29,431,724</u>
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Non-pooled investments:

Mutual/Exchange Traded Funds	\$ 3,995,992
Other investments	<u>24,301</u>
	<u>\$ 4,020,293</u>

Real estate held for investment purposes	<u>\$ 270,120</u>
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Real estate held for investment purposes consists primarily of donated land and is reported at the appraised value at the time of donation.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2022**

NOTE 6 - FAIR VALUE MEASUREMENTS

GAAP requires fair value of financial instruments to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. It establishes a three-level valuation hierarchy based upon observable and unobservable inputs, as follows:

Level 1 – Fair value is based on quoted prices in active markets for identical assets or liabilities.

Level 2 – Fair value is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Fair value is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

BCH has segregated its investments into the most appropriate level within the fair value hierarchy defined by GAAP at year-end as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pooled investments:				
Mutual/Exchange Traded Funds	<u>\$ 29,431,724</u>	<u>\$ 29,431,724</u>	<u>\$ -</u>	<u>\$ -</u>
Non-pooled investments:				
Mutual/Exchange Traded Funds	<u>\$ 3,995,992</u>	<u>\$ 2,667,707</u>	<u>\$ 1,328,285</u>	<u>\$ -</u>
Other investments	<u>24,301</u>	<u>-</u>	<u>-</u>	<u>24,301</u>
	<u>\$ 4,020,293</u>	<u>\$ 2,667,707</u>	<u>\$ 1,328,285</u>	<u>\$ 24,301</u>
Real estate held for investment	<u>\$ 270,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,120</u>

BCH's level 2 mutual funds relate to funds held by the North Carolina Baptist Foundation. Values of these investments are determined by the Foundation based on the market value of the underlying assets, which generally consist of publicly-traded securities. The value of the level 3 other investments are determined by management based on its estimates and third-party appraisals. The value of real estate held for investment purposes consists primarily of donated land and is reported at the appraised value at the time of donation.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2022**

The following table sets forth a summary of changes in the fair value of BCH's level 3 assets for the year.

Balance, beginning of year	\$ 740,951
Contributions of real estate held for investment	37,600
Sales of real estate held for investments	<u>(484,130)</u>
Balance, end of year	<u>\$ 294,421</u>

NOTE 7 - CHARITABLE REMAINDER UNITRUSTS

BCH has been named the beneficiary and trustee of certain charitable remainder unitrusts. Under the terms of the trust agreements, funds have been placed in irrevocable trusts with the donors receiving specified annual payments for the remainder of their lives or over a specified period of time. Any remaining trust assets will be distributed to BCH at the conclusion of the trust commitments. The fair value of investments in charitable remainder unitrusts is included in BCH's investments and is captioned "Annuity and life income fund". The present value of the estimated liability for amounts payable to donors is included as annuities payable.

NOTE 8 - FUNDS HELD IN TRUST BY OTHERS

BCH is the beneficiary of income from trust funds held and administered by outside fiscal agents with variance power over the distribution of the assets. Accordingly, no amounts are reflected in the accompanying financial statements related to the value of these accounts. Income is recorded as BCH receives payments due to the uncertainty of the timing and amounts that will be received. Income of \$516,331 earned on these funds is included in other contributions for the year.

NOTE 9 - UNDISTRIBUTED WILLS AND BEQUESTS

As of year-end BCH, is named as the beneficiary in the wills of certain decedents, the estates of which are in various degrees of settlement. It is not practical to estimate the net realizable value of the settlements or the periods in which such settlements will occur.

NOTE 10 - ENDOWMENT

BCH has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2022**

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions while growing the funds. Actual returns in any given year will vary. The Board of Trustees allows endowment investment earnings to be used to fund operations as needed.

NOTE 11 - NOTES PAYABLE

During its fiscal year 2008, BCH secured a U.S. Department of Housing and Urban Development ("HUD") mortgage for the acquisition of a facility located in Asheboro, North Carolina. Total advances received on the mortgage were \$422,532. Per the agreement with HUD, the non-amortizing balance will remain a liability for BCH for a period of 50 years with no requirement for repayment provided BCH maintains the property within the stipulations of its agreement with HUD. This activity is subject to annual monitoring of compliance by HUD. During the year, BCH recorded donated interest related to this mortgage payable of \$21,127.

NOTE 12 - RETIREMENT PLAN

BCH maintains a non-contributory defined contribution pension plan for all employees funded by payments to Guidestone Financial Services, which accumulates such proceeds and investment earnings to purchase annuities as required for providing retirement benefits. BCH contributes 5 percent of each eligible employee's compensation and matches 100 percent of employee contributions up to five percent. These contributions are 100 percent vested after five years. Contributions to the pension plan totaled \$1,124,671 for the year.

NOTE 13 - OPERATING LEASES

BCH leases various equipment and vehicles under non-cancelable operating leases. Payments related to these leases and month-to-month rentals during the year totaled \$196,361.

Minimum future rental payments under these leases are as follows:

Year ending September 30:	
2023	\$ 139,847
2024	<u>69,792</u>
Total	<u>\$ 209,639</u>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2022**

NOTE 14 - NET ASSETS

Net assets without donor restrictions as of year-end consist of the following:

Designated by the Board of Trustees for:

Purchase and maintenance of property and equipment	\$ 1,729,492
Granting of scholarships and educational loans	1,341,088
Endowment	<u>22,777,039</u>
	<u>\$ 25,847,619</u>

The Board of Trustees reserves the right to utilize Board-designated funds for purposes other than those designated above.

Net assets with donor restrictions at year-end consist of the following:

Restricted by time or purpose:

Promises to give in future years	\$ 44,058
Granting of scholarships and educational loans	3,076,220
Purchase and maintenance of property and equipment	9,174,015
Payment of annuities payable	<u>595,771</u>
	<u>12,890,064</u>
To be held in perpetuity - See below	<u>9,400,879</u>
	<u>\$ 22,290,943</u>

Net assets with donor restrictions that they be held in perpetuity at year-end consist of endowment fund investments to be held in perpetuity, the income from which is expendable to support the programs of intentionalized services to children and families.

NOTE 15 - CONCENTRATION OF RISK**Cash**

Cash and certificates of deposit held in bank accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The total cash and certificates of deposit held by BCH at year-end includes \$15,630,736 in excess of insured limits covered by the FDIC. Management diversifies funds within other qualified financial institutions to minimize the FDIC insurance limitations.

Investments

Investments held in certain financial institutions are insured up to \$500,000 by the Securities Investor Protection Corporation (SPIC); however, this insurance does not cover the loss of value of the underlying assets. As disclosed in Note 6 above, BCH maintains a variety of investments which are subject to fluctuations in market values and expose the BCH to a certain degree of investment risk.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.

Notes to Consolidated Financial Statements

September 30, 2022

Support and revenue

During the year, BCH received approximately 21 percent of its total support and revenue either directly from or indirectly through the Baptist State Convention of North Carolina, Inc. This concentration of support and revenue represents a significant risk that operations could be impacted should this funding source reduce or discontinue its funding.

NOTE 16 - CONTINGENT LIABILITIES

BCH self insures for employee health care costs up to a maximum of \$80,000 per year for each of the approximately 300 eligible employees. Any cost in excess of the self-insured amount is covered by health care insurance provided by a third-party insurer. During the year, BCH incurred \$2,272,273 of health care costs related to self-insurance and the third-party insurance policy. This amount is consistent with prior years based on the number of eligible employees. However, the future cost could be significantly higher depending on actual employee health care claims.

Financial awards from governmental entities in the form of grants and loans are subject to special audits by the funding agencies. Such audits could result in claims against BCH for disallowed costs or noncompliance with grantor restrictions.

No provision has been made for any liabilities that may arise from the above contingent liabilities since the future amounts, if any, cannot be determined at this date.

NOTE 17 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

BCH has \$51,530,660 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$16,608,324, investments of \$33,452,017, and receivables of \$1,470,319, which are expected to be collected during the year. Of this total, \$22,246,885 of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

NOTE 18 - SUBSEQUENT EVENTS

BCH has evaluated subsequent events from the date of the statement of financial position through the date of the independent auditors' report, which is the date the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Baptist Children's Homes of North Carolina, Inc.
Thomasville, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Baptist Children's Homes of North Carolina, Inc. (BCH), which comprise the statement of financial position as of September 30, 2022 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BCH's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BCH's internal control. Accordingly, we do not express an opinion on the effectiveness of BCH's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of BCH's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Baptist Children's Homes of North Carolina, Inc.
Thomasville, North Carolina

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether BCH's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of BCH's internal control on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BCH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C. Dewitt Ford & Company, P.A.

December 22, 2022

C. DEWITT FOARD & COMPANY, P.A.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
Baptist Children's Homes of North Carolina, Inc.
Thomasville, North Carolina

Report on Compliance for Each Major State Program

Opinion on Each Major State Program

We have audited Baptist Children's Homes of North Carolina, Inc.'s (BCH) compliance with the types of compliance identified as subject to audit in the *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on BCH's major State program for the year ended September 30, 2022. BCH's major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Baptist Children's Homes of North Carolina, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State program for the year ended September 30, 2022.

Basis for Opinion on Each Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of BCH and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major State program. Our audit does not provide a legal determination of BCH's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to BCH's State program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on BCH's compliance based on our audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about BCH's compliance with the requirements of each major State program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 BCH's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of BCH's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of BCH's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Baptist Children's Homes of North Carolina, Inc.
Thomasville, North Carolina

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

C. Dewitt Ford & Company, P.A.

December 22, 2022

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2022

I. Summary of Auditors' Results

1. An unqualified opinion was issued on the financial statements of Baptist Children's Homes of North Carolina, Inc. ("BCH").
2. No significant deficiencies related to the audit of the financial statements are reported in the "Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements In Accordance with *Government Auditing Standards*."
3. No instances of noncompliance material to the financial statements of BCH were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major State program are reported in the "Independent Auditors' Report on Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance."
5. An unmodified opinion was issued on BCH's compliance with the types of compliance requirements applicable to its major State program.
6. Our audit disclosed no audit findings related to the major State program for BCH.
7. The program tested as a major program was North Carolina Department of Health and Human Services, Division of Budget and Analysis Directed Grant.
8. The threshold used for distinguishing between Type A and B programs was \$500,000 in accordance with the State Single Audit Implementation Act.
9. BCH did not qualify as a low-risk auditee under Section 200 of the Uniform Guidance.

II. Findings Related to the Audit of the Financial Statements

No findings for the year ended September 30, 2022.

III. Findings Related to the Audit of State Awards

No findings for the year ended September 30, 2022.

IV. Summary Schedule of Prior Year Audit Findings

No Uniform Guidance audit was performed for the year ended September 30, 2021.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2022

State Grantor/ Program Title	State Expenditures
North Carolina Department of Health and Human Services	
Division of Budget and Analysis:	
Directed Grant	\$ 1,250,000
Total	\$ 1,250,000