

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

***FINANCIAL STATEMENTS
SEPTEMBER 30, 2020***

BAPTIST CHILDREN’S HOMES OF NORTH CAROLINA, INC.
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September 30, 2020

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Baptist Children's Homes of North Carolina, Inc. ("BCH" - a nonprofit corporation), which comprise the consolidated statement of financial position as of September 30, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Baptist Children's Homes of North Carolina, Inc., as of September 30, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited BCH's 2019 financial statements, and our report dated December 20, 2019, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

C. Dewitt Foard & Company, P.A.
December 28, 2020

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Financial Position****September 30, 2020, With Prior Year Comparative Totals**

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 9,396,402	\$ 8,831,232
Accounts receivable, net	876,084	1,053,828
Sales tax refunds receivable	41,664	56,070
Unconditional promises to give, net	338,501	352,334
Investments:		
Pooled assets	26,858,875	19,935,949
Non-pooled assets	4,845,001	4,810,602
Real estate held for investment	1,610,108	1,885,501
Student loans receivable, net	360,763	367,947
Prepaid expenses	93,876	126,200
Cash surrender value of life insurance	162,999	163,523
Property and equipment, net	15,510,473	16,376,183
<u>TOTAL ASSETS</u>	<u>\$ 60,094,746</u>	<u>\$ 53,959,369</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 885,920	\$ 838,842
Refundable advance	3,194,000	-
Annuities payable	729,635	709,798
Notes payable	422,532	663,228
<u>Total Liabilities</u>	<u>5,232,087</u>	<u>2,211,868</u>
Net Assets:		
Without donor restrictions:		
Designated	26,731,565	25,739,423
Undesignated	10,635,068	10,765,723
<u>Total Net Assets Without Donor Restrictions</u>	<u>37,366,633</u>	<u>36,505,146</u>
With donor restrictions	17,496,026	15,242,355
<u>Total Net Assets</u>	<u>54,862,659</u>	<u>51,747,501</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 60,094,746</u>	<u>\$ 53,959,369</u>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Activities****Year Ended September 30, 2020, With Prior Year Comparative Totals**

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2020	2019
<u>SUPPORT AND REVENUE</u>				
Cooperative program offering	\$ 1,520,829	\$ 1,037,136	\$ 2,557,965	\$ 2,619,692
Contributions:				
Church offerings	3,415,674	-	3,415,674	3,158,680
Estate gifts and bequests	2,089,730	912,446	3,002,176	4,495,240
Other gifts:				
Cash and promises	6,883,269	715,693	7,598,962	6,203,240
In-kind	730,203	-	730,203	938,255
Program service fees	7,913,493	-	7,913,493	7,842,949
Weekday education	1,115,897	-	1,115,897	1,168,650
Miscellaneous	22,059	500	22,559	20,151
Rent income	546,673	-	546,673	565,916
Gain on disposal of equipment	1,236	-	1,236	13,199
Investment income	1,712,804	390,650	2,103,454	263,829
Net assets released from restrictions:				
Satisfaction of time restrictions	213,435	(213,435)	-	-
Restrictions satisfied by payments	589,319	(589,319)	-	-
<i>TOTAL SUPPORT AND REVENUE</i>	<i>26,754,621</i>	<i>2,253,671</i>	<i>29,008,292</i>	<i>27,289,801</i>
<u>EXPENSES</u>				
Program Services:				
Weekday education	1,488,714	-	1,488,714	1,511,949
Family services	8,749,673	-	8,749,673	9,674,942
Enrichment activities	417,800	-	417,800	466,080
Group homes	1,193,528	-	1,193,528	1,119,942
Family care	885,020	-	885,020	1,037,605
Foster care	1,594,884	-	1,594,884	941,245
Wilderness camps	2,646,964	-	2,646,964	2,678,801
Developmentally Disabled Ministries	2,716,553	-	2,716,553	2,885,531
Special Ministries	1,102,953	-	1,102,953	779,416
N.C. Baptist Aging Ministry	873,078	-	873,078	863,147
Emergency Care	1,028,902	-	1,028,902	798,629
Scholarships awarded	173,848	-	173,848	205,397
Total Program Services	22,871,917	-	22,871,917	22,962,684
Management and general	1,361,644	-	1,361,644	1,911,627
Fundraising	1,659,573	-	1,659,573	1,794,841
<i>TOTAL EXPENSES</i>	<i>25,893,134</i>	<i>-</i>	<i>25,893,134</i>	<i>26,669,152</i>
<i>CHANGE IN NET ASSETS</i>	<i>861,487</i>	<i>2,253,671</i>	<i>3,115,158</i>	<i>620,649</i>
<i>NET ASSETS, BEGINNING</i>	<i>36,505,146</i>	<i>15,242,355</i>	<i>51,747,501</i>	<i>51,126,852</i>
<i>NET ASSETS, ENDING</i>	<i>\$ 37,366,633</i>	<i>\$ 17,496,026</i>	<i>\$ 54,862,659</i>	<i>\$ 51,747,501</i>

See accompanying notes to financial statements.

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BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Functional Expenses****Year Ended September 30, 2020, With Prior Year Comparative Totals**

	Program Services							
	Weekday Education	Family Services	Enrichment Activities	Group Homes	Family Care	Foster Care	Emergency Care	Wilderness Camps
PERSONNEL								
Salaries and wages	\$ 878,239	\$ 4,217,250	\$ 69,130	\$ 636,644	\$ 338,167	\$ 717,093	\$ 540,825	\$ 1,341,959
Benefits and taxes	240,410	1,565,803	16,242	296,597	151,906	259,078	249,415	547,113
Total Personnel	1,118,649	5,783,053	85,372	933,241	490,073	976,171	790,240	1,889,072
OTHER EXPENSES								
Utilities and insurance	42,303	448,303	161,738	24,795	86,066	20,745	47,109	104,983
Depreciation	64,328	414,376	72,064	48,133	103,062	75,185	24,550	161,483
Repairs & maintenance	97,975	676,079	84,567	31,861	103,851	38,751	21,820	177,938
Travel and auto	10,867	295,943	17	35,165	13,533	53,489	268	75,519
Other	24,070	107,824	271	5,402	22,560	8,221	29,062	13,387
Food	74,796	253,283	-	42,445	2,419	2,947	32,825	66,529
Postage & printing	298	7,943	-	245	333	2,827	40	3,751
Supplies	24,799	275,945	3,547	24,087	25,625	20,150	28,661	63,895
Child care	22	126,374	1,532	12,940	9,668	349,009	22,129	7,434
Telephone	9,777	66,043	5,388	9,987	15,375	15,404	3,921	19,046
Information technology	13,043	123,164	3,304	13,938	10,942	11,789	11,295	36,441
Membership & training	4,720	72,161	-	3,355	567	18,776	377	22,049
Legal and accounting	3,067	13,928	-	-	585	1,121	-	3,489
Clothing	-	64,669	-	7,934	361	299	16,605	1,948
Scholarships & grants	-	20,585	-	-	-	-	-	-
TOTAL EXPENSES	\$ 1,488,714	\$ 8,749,673	\$ 417,800	\$ 1,193,528	\$ 885,020	\$ 1,594,884	\$ 1,028,902	\$ 2,646,964

Program Services									
Special Ministries	Developmentally Disabled Ministry	NC Baptist Aging Ministry	Scholarships Awarded	Total	Management and General	Fundraising	Totals		
							2020	2019	
\$ 268,671	\$ 1,439,746	\$ 479,602	\$ -	\$ 10,927,326	\$ 716,085	\$ 637,271	\$ 12,280,682	\$ 11,684,412	
87,277	501,709	122,401	-	4,037,951	83,733	189,938	4,311,622	4,351,926	
355,948	1,941,455	602,003	-	14,965,277	799,818	827,209	16,592,304	16,036,338	
32,286	96,173	5,116	-	1,069,617	72,340	12,047	1,154,004	1,232,048	
68,017	156,819	41,958	-	1,229,975	59,554	60,228	1,349,757	1,339,174	
176,679	119,071	15,031	-	1,543,623	83,806	19,960	1,647,389	2,532,538	
18,272	95,978	30,477	-	629,528	19,246	54,708	703,482	892,407	
14,910	31,062	72,061	-	328,830	84,363	106,446	519,639	582,312	
334,559	72,273	-	-	882,076	-	125	882,201	994,498	
1,884	2,321	26,814	-	46,456	13,540	494,863	554,859	543,701	
81,499	45,468	47,333	-	641,009	68,194	11,130	720,333	777,064	
592	53,082	400	-	583,182	164	287	583,633	512,841	
7,647	33,602	10,047	-	196,237	19,571	11,337	227,145	212,322	
9,319	50,806	7,880	-	291,921	64,885	43,657	400,463	329,158	
1,341	14,403	12,863	-	150,612	61,348	16,511	228,471	289,647	
-	4,040	1,095	-	27,325	14,815	1,065	43,205	35,817	
-	-	-	-	91,816	-	-	91,816	139,890	
-	-	-	173,848	194,433	-	-	194,433	219,397	
\$ 1,102,953	\$ 2,716,553	\$ 873,078	\$ 173,848	\$ 22,871,917	\$ 1,361,644	\$ 1,659,573	\$ 25,893,134	\$ 26,669,152	

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Cash Flows****Year Ended September 30, 2020, With Prior Year Comparative Totals**

	<u>2020</u>	<u>2019</u>
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 3,115,158	\$ 620,649
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation expense	1,349,757	1,339,174
Gain on disposal of equipment	(1,236)	(13,199)
Contributions restricted for long-term purposes	(1,674,003)	(1,743,217)
Contributions of real estate held for investment	(28,400)	(9,000)
Realized and unrealized losses (gains) on investments	(1,547,503)	472,879
Change in value of annuities payable	19,837	12,968
(Increase) decrease in operating assets:		
Accounts receivable	177,744	50,588
Sales tax refunds receivable	14,406	34,304
Unconditional promises to give	13,833	511,075
Prepaid expenses	32,324	(16,432)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	47,078	46,922
Refundable advance	3,194,000	-
<i>Cash Flows From Operating Activities</i>	<u>4,712,995</u>	<u>1,306,711</u>
<u>INVESTING ACTIVITIES</u>		
Proceeds from sale of investments	4,042,307	9,015,134
Purchases of investments	(9,148,336)	(8,601,937)
Issuance of student loans, net of repayments	7,184	5,630
Proceeds from disposal of property and equipment	4,000	39,000
Purchases of property and equipment	(486,811)	(1,262,807)
Decrease in cash surrender value of life insurance	524	23,202
<i>Cash Flows From Investing Activities</i>	<u>(5,581,132)</u>	<u>(781,778)</u>
<u>FINANCING ACTIVITIES</u>		
Principal payments on notes	(240,696)	(198,494)
Contributions restricted for long-term purposes	1,674,003	1,743,217
<i>Cash Flows From Financing Activities</i>	<u>1,433,307</u>	<u>1,544,723</u>
<i>CHANGE IN CASH AND CASH EQUIVALENTS</i>	<u>565,170</u>	<u>2,069,656</u>
<i>CASH AND CASH EQUIVALENTS, BEGINNING</i>	<u>8,831,232</u>	<u>6,761,576</u>
<i>CASH AND CASH EQUIVALENTS, ENDING</i>	<u>\$ 9,396,402</u>	<u>\$ 8,831,232</u>

SUPPLEMENTAL INFORMATION

Interest expense paid during the year	<u>\$ 4,581</u>	<u>\$ 11,230</u>
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BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.

Notes to Consolidated Financial Statements

September 30, 2020

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 consist of temporarily restricted net assets, which are subject to donor-imposed stipulations that may or will be met either by actions of BCH or the passage of time and permanently restricted net assets, which are subject to donor-imposed stipulations that they be maintained permanently by BCH.

Contributions

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.

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, 2020

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 discounted to present value using the five-year U.S. Treasury interest rate as of the date of the promise.

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.

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, 2020

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 \$701,803 of donated goods and no donated services.

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 unrestricted support unless the donor has restricted the donated asset to a specific purpose. During the year, BCH recorded \$28,400 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.

Revenue recognition

BCH expects to adopt the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09), for the year ending September 30, 2021. The core principle of this standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management believes that the impact of this standard will not be material to BCH's financial statements.

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.

Prior-year comparative totals

The financial statements include certain prior-year summarized information, which is presented for comparative purposes only. Accordingly, such information should be read in conjunction with BCH's 2019 financial statements, from which the summarized information was derived. Certain prior-year amounts may have been reclassified to conform to the presentation in the current-year financial statements.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2020**

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.

NOTE 3 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are receivable as follows:

Year ending September 30:

2021	\$	398,506	
2022		20,000	
2023		20,000	
		<u>438,506</u>	
Less:			
Allowance for uncollectible contributions receivable		99,552	
Present value discount on long-term promises to give		453	
		<u>\$</u>	<u>338,501</u>

NOTE 4 - STUDENT LOANS RECEIVABLE

Student loans receivable consist of the following at year-end:

	<u>Affiliated</u>	<u>Unaffiliated</u>	<u>Total</u>
Student loans receivable	\$ 216,946	\$ 189,177	\$ 406,123
Less allowance for uncollectibles	42,133	3,227	45,360
	<u>\$ 174,813</u>	<u>\$ 185,950</u>	<u>\$ 360,763</u>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2020**

NOTE 5 - PROPERTY AND EQUIPMENT

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

	Estimated Useful Lives	
Land	-	\$ 2,959,583
Buildings and improvements	10-20 years	28,522,212
Furniture, equipment and vehicles	5-15 years	5,003,866
Land improvements	5 years	1,693,037
Construction in progress	-	<u>328,936</u>
		38,507,634
Less - accumulated depreciation		<u>22,997,161</u>
		<u>\$ 15,510,473</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 \$657,379 as of year-end and are included in buildings and improvements shown above.

NOTE 6 - INVESTMENTS

Investments as of year-end consist of the following:

Pooled investments:

Mutual funds	\$ 26,841,942
Limited partnerships	<u>16,933</u>
	<u>\$ 26,858,875</u>

Non-pooled investments:

Equities	\$ 9,432
Mutual funds	4,811,268
Other investments	<u>24,301</u>
	<u>\$ 4,845,001</u>

Real estate held for investment purposes	<u>\$ 1,610,108</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, 2020**

Investment income for the year is comprised of the following:

Interest and dividends	\$ 688,522
Realized and unrealized gain on pooled and non-pooled investments	1,438,267
Realized and unrealized gain on real estate held for investment	109,236
	<hr/>
	2,236,025
Less – fees	132,571
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	\$ 2,103,454
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NOTE 7 - 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:

	Total	Level 1	Level 2	Level 3
	<hr/>	<hr/>	<hr/>	<hr/>
Pooled investments:				
Mutual funds	\$ 26,841,942	\$ 26,841,942	\$ -	\$ -
Limited partnerships	16,933	-	-	16,933
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 26,858,875	\$ 26,841,942	\$ -	\$ 16,933
	<hr/>	<hr/>	<hr/>	<hr/>
Non-pooled investments:				
Mutual funds	\$ 4,811,268	\$3,174,134	\$1,637,134	\$ -
Equities	9,432	9,432	-	-
Other investments	24,301	-	-	24,301
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 4,845,001	\$ 3,183,566	\$ 1,637,134	\$ 24,301
	<hr/>	<hr/>	<hr/>	<hr/>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2020**

Real estate held for investment	<u>\$ 1,610,108</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,610,108</u>
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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 BCH's level 3 limited partnership investments are determined by the financial institution with custody of the investments. 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.

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	\$ 1,940,645
Contributions of real estate held for investment	28,400
Sales of real estate held for investments	(413,029)
Realized and unrealized gain	<u>95,326</u>
Balance, end of year	<u>\$ 1,651,342</u>

NOTE 8 - 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 9 - 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 \$391,313 earned on these funds is included in other contributions for the year.

NOTE 10 - 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.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2020**

NOTE 11 - 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. 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 12 - REFUNDABLE ADVANCE PAYABLE

In order to mitigate the effect of the COVID-19 pandemic, BCH received a Paycheck Protection Program "PPP" advance for \$3,194,000 from the Small Business Administration during the year. The advance is eligible to be forgiven if utilized for allowable expenses as defined by PPP guidelines. By year-end, BCH had spent the proceeds on allowable costs, and since year-end, has formally requested forgiveness.

NOTE 13 - NOTES PAYABLE

During the 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 14 - 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 \$1,075,294 for the year.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2020**

NOTE 15 - 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 \$185,447.

Minimum future rental payments under these leases are as follows:

Year ending September 30:	
2021	\$ 129,060
2022	108,540
2023	60,403
2024	22,667
Total	<u>\$ 320,670</u>

NOTE 16 - 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	\$ 1,548,234
Granting of scholarships and educational loans	1,374,173
Endowment	23,809,158
	<u>\$ 26,731,565</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:

Temporarily restricted:

Promises to give in future years	\$ 340,441
Granting of scholarships and educational loans	3,284,483
Purchase and maintenance of property and equipment	5,096,895
Payment of annuities payable	650,867
Total Temporarily Restricted	<u>9,372,686</u>

Permanently restricted - See below	<u>8,123,340</u>
	<u>\$ 17,496,026</u>

Permanently restricted net assets 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.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.

Notes to Consolidated Financial Statements

September 30, 2020

NOTE 17 - RENTAL INCOME

BCH receives rent from various real estate holdings. The original terms of these leases range from month-to-month to periods ending during the subsequent year. Minimum future rents under these leases are \$458,328.

NOTE 18 - 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 \$8,129,418 at three banks 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.

Support and revenue

During the year, BCH received approximately 25 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 19 - 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 \$2,215,886 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 such the above contingent liabilities since the future amounts, if any, cannot be determined at this date.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2020**

NOTE 20 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

BCH has \$42,316,527 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$9,396,402, investments of \$31,703,876, and receivables of \$1,216,249, which are expected to be collected during the year. Of this total, \$17,155,585 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 21 - UNCERTAINTIES

The COVID-19 pandemic has resulted in major changes in the local economy. At this point, the full impact of this pandemic on BCH is unknown, but management believes that it could negatively impact its revenue for at least the next year.

NOTE 22 - 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.

As of October 1, 2020, Christian Adoption Services, Inc. (the Agency), a public charitable organization under Section 509(a)(1) of the Internal Revenue Code, merged its services and assets with BCH. The Agency operates domestic adoption, international adoption and adoption training and counseling from its offices in Indian Trail, Thomasville, and Rocky Mount, North Carolina and Spartanburg, South Carolina. As of October 1, 2020, the Agency has net assets of \$880,141 without donor restrictions and \$39,045 of net assets with donor restrictions.