

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

***FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015***

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

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**September 30, 2015**

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# C. DEWITT FOARD & COMPANY, P.A.

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CERTIFIED PUBLIC ACCOUNTANTS  
817 EAST MOREHEAD STREET SUITE 100  
CHARLOTTE, NORTH CAROLINA 28202  
TELEPHONE: 704-372-1515 FACSIMILE: 704-372-6066

PHILLIP G. WILSON  
TERRY W. LANCASTER

## 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 financial statements of Baptist Children's Homes of North Carolina, Inc. ("BCH" - a nonprofit corporation), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2015 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 2014 financial statements, and in our report dated January 8, 2015, expressed a qualified opinion on those financial statements stating that we were unable to obtain audit evidence supporting certain limited partnership investments as of September 30, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*C. Dewitt Foard & Company, P.A.*

January 4, 2016

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.****Consolidated Statement of Financial Position****September 30, 2015, With Prior Year Comparative Totals**

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	2015	2014
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 2,671,199	\$ 2,774,490
Accounts receivable, net	895,127	800,006
Sales tax refunds receivable	40,359	94,961
Unconditional promises to give, net	4,448,107	4,804,752
Investments:		
Pooled assets	17,483,890	15,707,783
Non-pooled assets	1,493,132	1,682,991
Real estate held for investment	2,582,279	2,531,416
Student loans receivable, net	219,581	219,258
Prepaid expenses	115,014	65,033
Cash surrender value of life insurance	361,299	379,777
Property and equipment, net	14,690,989	15,213,844
<b><i>TOTAL ASSETS</i></b>	<b><i>\$ 45,000,976</i></b>	<b><i>\$ 44,274,311</i></b>

**LIABILITIES AND NET ASSETS**

## Liabilities:

Accounts payable and accrued expenses	\$ 575,222	\$ 716,179
Annuities payable	282,120	248,416
Mortgages payable	572,630	625,804
<b>Total Liabilities</b>	<b>1,429,972</b>	<b>1,590,399</b>

## Net Assets:

Unrestricted	28,701,771	27,183,252
Temporarily restricted	7,388,763	8,131,751
Permanently restricted	7,480,470	7,368,909
<b>Total Net Assets</b>	<b>43,571,004</b>	<b>42,683,912</b>

***TOTAL LIABILITIES AND NET ASSETS***      ***\$ 45,000,976***      ***\$ 44,274,311***

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.****Consolidated Statement of Activities****Year Ended September 30, 2015, With Prior Year Comparative Totals**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2015	2014
<b><u>SUPPORT AND REVENUE</u></b>					
Cooperative program offering	\$ 1,548,663	\$ 1,056,622	\$ -	\$ 2,605,285	\$ 2,639,721
Contributions:					
Church offerings	2,717,373	25,278	-	2,742,651	2,823,141
Estate gifts and bequests	1,352,911	-	-	1,352,911	3,219,046
Other gifts:					
Cash and promises	5,145,207	1,242,513	111,561	6,499,281	6,568,229
In-kind	484,258	-	-	484,258	504,835
Program service fees	6,541,238	-	-	6,541,238	4,882,349
Weekday education	1,108,789	-	-	1,108,789	1,132,883
Miscellaneous	12,324	5,315	-	17,639	44,968
Rent income	574,181	-	-	574,181	607,733
Gain (loss) on disposal of equipment	10,228	9,264	-	19,492	(4,925)
Investment income	(774,994)	(144,672)	-	(919,666)	962,931
Net assets released from restrictions:					
Satisfaction of time restrictions	1,511,954	(1,511,954)	-	-	-
Restrictions satisfied by payments	1,425,354	(1,425,354)	-	-	-
<b><i>TOTAL SUPPORT AND REVENUE</i></b>	<b><i>21,657,486</i></b>	<b><i>(742,988)</i></b>	<b><i>111,561</i></b>	<b><i>21,026,059</i></b>	<b><i>23,380,911</i></b>
<b><u>EXPENSES</u></b>					
Program Services:					
Weekday education	1,392,757	-	-	1,392,757	1,337,866
Family services	7,030,455	-	-	7,030,455	7,586,865
Enrichment activities	481,329	-	-	481,329	499,064
Group homes	894,226	-	-	894,226	871,462
Family care	1,004,795	-	-	1,004,795	839,088
Cameron Boys Camp	1,251,112	-	-	1,251,112	1,236,657
Developmentally Disabled Ministries	2,084,236	-	-	2,084,236	2,029,217
Duncan Girls Camp	627,666	-	-	627,666	568,961
N.C. Baptist Aging Ministry	735,492	-	-	735,492	744,323
Emergency Care	649,802	-	-	649,802	598,208
Scholarships awarded	141,682	-	-	141,682	107,356
Total Program Services	16,293,552	-	-	16,293,552	16,419,067
Management and general	2,231,320	-	-	2,231,320	2,008,638
Fundraising	1,614,095	-	-	1,614,095	1,558,797
<b><i>TOTAL EXPENSES</i></b>	<b><i>20,138,967</i></b>	<b><i>-</i></b>	<b><i>-</i></b>	<b><i>20,138,967</i></b>	<b><i>19,986,502</i></b>
<b><i>CHANGE IN NET ASSETS</i></b>	<b><i>1,518,519</i></b>	<b><i>(742,988)</i></b>	<b><i>111,561</i></b>	<b><i>887,092</i></b>	<b><i>3,394,409</i></b>
<b><i>NET ASSETS, BEGINNING</i></b>	<b><i>27,183,252</i></b>	<b><i>8,131,751</i></b>	<b><i>7,368,909</i></b>	<b><i>42,683,912</i></b>	<b><i>39,289,503</i></b>
<b><i>NET ASSETS, ENDING</i></b>	<b><i>\$ 28,701,771</i></b>	<b><i>\$ 7,388,763</i></b>	<b><i>\$ 7,480,470</i></b>	<b><i>\$ 43,571,004</i></b>	<b><i>\$ 42,683,912</i></b>

**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.****Consolidated Statement of Functional Expenses****Year Ended September 30, 2015, With Prior Year Comparative Totals**

	Program Services						
	Weekday Education	Family Services	Enrichment Activities	Group Homes	Family Care	Cameron Boys Camp	Developmentally Disabled Ministries
<b><u>PERSONNEL</u></b>							
Salaries and wages	\$ 813,425	\$ 3,106,514	\$ 72,818	\$ 490,775	\$ 340,131	\$ 606,722	\$ 1,040,087
Benefits and taxes	239,429	1,128,301	20,023	182,547	111,717	231,940	334,299
<b>Total Personnel</b>	<b>1,052,854</b>	<b>4,234,815</b>	<b>92,841</b>	<b>673,322</b>	<b>451,848</b>	<b>838,662</b>	<b>1,374,386</b>
<b><u>OTHER EXPENSES</u></b>							
Utilities and insurance	48,308	444,201	178,553	24,184	90,549	81,008	83,050
Depreciation	24,027	179,376	53,405	8,131	122,282	45,940	116,148
Repairs and maintenance	88,203	644,799	137,174	27,295	201,627	89,460	118,480
Travel and auto	12,867	361,782	719	44,756	51,259	41,916	130,717
Other	19,414	100,446	-	1,718	3,142	6,645	26,051
Food	89,550	338,744	-	42,535	8,138	76,920	68,530
Postage and printing	1,116	9,972	-	418	730	2,234	2,402
Supplies	28,043	270,900	8,331	26,607	36,339	19,978	31,819
Child care personal incidentals	3,117	126,285	4,133	13,530	14,324	4,781	55,820
Telephone	8,363	71,885	5,062	9,401	13,716	10,434	34,331
Information technology	10,204	95,656	1,029	6,385	7,761	14,272	30,787
Memberships and training	4,582	61,410	82	1,318	1,008	14,421	9,650
Legal and accounting	2,109	16,283	-	-	-	1,916	1,831
Clothing	-	73,901	-	14,626	2,072	2,525	234
Scholarships and grants	-	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 1,392,757</b>	<b>\$ 7,030,455</b>	<b>\$ 481,329</b>	<b>\$ 894,226</b>	<b>\$ 1,004,795</b>	<b>\$ 1,251,112</b>	<b>\$ 2,084,236</b>

Program Services								
Duncan Girls Camp	North Carolina	Emergency Care	Scholarships Awarded	Total	Management and General	Fundraising	Totals	
	Baptist Aging Ministry						2015	2,014
\$ 292,320	\$ 409,015	\$ 324,433	\$ -	\$ 7,496,240	\$ 1,065,390	\$ 580,638	\$ 9,142,268	\$ 9,001,012
117,552	104,814	121,185	-	2,591,807	262,186	160,709	3,014,702	2,861,023
409,872	513,829	445,618	-	10,088,047	1,327,576	741,347	12,156,970	11,862,035
28,057	3,598	47,565	-	1,029,073	96,441	10,023	1,135,537	1,165,757
51,944	26,178	1,760	-	629,191	145,915	10,628	785,734	794,974
54,076	17,908	38,045	-	1,417,067	211,529	14,093	1,642,689	1,928,871
40,460	65,793	566	-	750,835	55,625	116,295	922,755	967,635
1,813	58,610	14,390	-	232,229	150,885	285,167	668,281	625,143
14,718	-	38,103	-	677,238	209	1,219	678,666	682,935
867	19,322	72	-	37,133	7,297	366,099	410,529	402,527
9,393	10,860	20,693	-	462,963	95,267	17,998	576,228	528,702
3,729	-	22,115	-	247,834	400	-	248,234	230,120
4,315	8,358	3,036	-	168,901	20,600	11,471	200,972	211,344
367	7,488	2,038	-	175,987	44,417	25,323	245,727	197,195
4,052	2,812	142	-	99,477	55,554	12,784	167,815	154,648
736	736	-	-	23,611	19,605	1,648	44,864	35,345
3,267	-	15,659	-	112,284	-	-	112,284	91,915
-	-	-	141,682	141,682	-	-	141,682	107,356
<b>\$ 627,666</b>	<b>\$ 735,492</b>	<b>\$ 649,802</b>	<b>\$ 141,682</b>	<b>\$ 16,293,552</b>	<b>\$ 2,231,320</b>	<b>\$ 1,614,095</b>	<b>\$ 20,138,967</b>	<b>\$ 19,986,502</b>

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.****Consolidated Statement of Cash Flows****Year Ended September 30, 2015, With Prior Year Comparative Totals**

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	<u>2015</u>	<u>2014</u>
<b><u>OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 887,092	\$ 3,394,409
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation expense	785,734	794,974
Provision for uncollectable loans	28,295	42,026
(Gain) loss on disposal of equipment	(19,492)	4,925
Contributions restricted for long-term purposes	(1,254,827)	(2,211,201)
Contributions of real estate held for investment	(450,640)	(172,762)
Realized and unrealized (gain) loss on investments	1,206,429	(722,362)
Change in value of annuities payable	33,704	(9,449)
(Increase) decrease in operating assets:		
Accounts receivable	(95,121)	(197,980)
Sales tax refunds receivable	54,602	(22,539)
Unconditional promises to give	(522,751)	(328,939)
Prepaid expenses	(49,981)	(7,995)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(140,957)	(200,136)
<b><i>Cash Flows From Operating Activities</i></b>	<b><u>462,087</u></b>	<b><u>362,971</u></b>
<b><u>INVESTING ACTIVITIES</u></b>		
Proceeds from sale of investments	3,295,809	6,227,098
Purchases of investments	(5,688,709)	(6,796,571)
Issuance of student loans, net of repayments	(28,618)	(51,989)
Proceeds from sales of property and equipment	45,327	22,575
Purchases of property and equipment	(288,714)	(393,703)
Decrease (increase) in unconditional promises restricted to future years	879,396	(722,482)
(Increase) decrease in cash surrender value of life insurance	18,478	46,383
<b><i>Cash Flows From Investing Activities</i></b>	<b><u>(1,767,031)</u></b>	<b><u>(1,668,689)</u></b>
<b><u>FINANCING ACTIVITIES</u></b>		
Principal payments on mortgages	(53,174)	(31,168)
Contributions restricted for long-term purposes	1,254,827	2,211,201
<b><i>Cash Flows From Financing Activities</i></b>	<b><u>1,201,653</u></b>	<b><u>2,180,033</u></b>
<b><i>CHANGE IN CASH AND CASH EQUIVALENTS</i></b>	<b><u>(103,291)</u></b>	<b><u>874,315</u></b>
<b><i>CASH AND CASH EQUIVALENTS, BEGINNING</i></b>	<b><u>2,774,490</u></b>	<b><u>1,900,175</u></b>
<b><i>CASH AND CASH EQUIVALENTS, ENDING</i></b>	<b><u>\$ 2,671,199</u></b>	<b><u>\$ 2,774,490</u></b>
<b><u>SUPPLEMENTAL INFORMATION</u></b>		
Interest expense paid during the year	<u>\$ 7,817</u>	<u>\$ 9,834</u>



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

## **Notes to Consolidated Financial Statements**

**September 30, 2015**

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### **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, and investment earnings. 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 financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted net assets* consist of assets, net of liabilities, related to BCH's operating activities, which are available at the discretion of the Board of Trustees. Unrestricted amounts that are available for use in carrying out the mission of BCH include expendable resources, which have been designated for special use by the Board of Trustees, and resources invested in property and equipment.

*Temporarily restricted net assets* represent those amounts which are subject to donor-imposed stipulations that may or will be met, either by actions of BCH and/or the passage of time. Restricted support received is reported as an increase in temporarily restricted net assets. When a donor restriction no longer applies (that is, when a stipulated time period ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently restricted net assets* result from contributions from donors who place restrictions on the use of the funds, which mandate that the principal be invested in perpetuity. The principal is reported as a permanently restricted net asset. Earnings, gains and losses on permanently restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2015**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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.

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 September 30, 2015, are net of an allowance for uncollectible amounts of \$40,000.

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.

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.

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2015**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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.

Donated services and goods

Donated services are reported as contributions when the services (a) create or enhance non-financial 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 ended September 30, 2015, BCH recorded \$479,688 of donated goods and \$4,570 of 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. Certain assets are stated at assigned estimated historical values based upon a physical inventory of plant assets completed during the fiscal year ended September 30, 1986. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

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

Expenses are allocated to program services, management and general, and fundraising based on management's estimates of time spent and various allocation methods appropriate to the type of expense.

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2015**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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 the BCH's September 30, 2014 financial statements, from which the summarized information was derived. Certain prior-year amounts have been reclassified to conform to the presentation in the current-year financial statements.

Income taxes

BCH is exempt from federal and state income taxation 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 consist of the following at September 30, 2015:

Unrestricted promises	\$ 3,902,979
Restricted for construction of certain facilities	719,133
	<u>4,622,112</u>
Less:	
Allowance for uncollectible contributions receivable	106,918
Present value discount on long-term promises to give	67,087
	<u><u>\$ 4,448,107</u></u>

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2015**

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**NOTE 3 - UNCONDITIONAL PROMISES TO GIVE, continued**

These contributions are receivable as follows:

Year ending September 30:

2016	\$ 2,143,141
2017	971,823
2018	1,031,977
2019	425,644
2020	39,527
Thereafter	<u>10,000</u>
	4,622,112
Less:	
Allowance for uncollectible contributions receivable	106,918
Present value discount on long-term promises to give	<u>67,087</u>
	<u>\$ 4,448,107</u>

**NOTE 4 - STUDENT LOANS RECEIVABLE**

Student loans receivable consist of the following at September 30, 2015:

	<u>Affiliated</u>	<u>Unaffiliated</u>	<u>Total</u>
Student loans receivable	\$ 185,313	\$ 79,628	\$ 264,941
Less allowance for uncollectibles	<u>42,133</u>	<u>3,227</u>	<u>45,360</u>
	<u>\$ 143,180</u>	<u>\$ 76,401</u>	<u>\$ 219,581</u>

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2015**

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**NOTE 5 - PROPERTY AND EQUIPMENT**

The principal categories and estimated useful lives of property and equipment at September 30, 2015, are as follows:

	Estimated Useful Lives	
Land	-	\$ 2,951,708
Buildings and improvements	10-20 years	25,154,113
Furniture, equipment and vehicles	5-15 years	5,605,402
Land improvements	5 years	1,697,563
Construction in progress	-	<u>57,862</u>
		35,466,648
Less - accumulated depreciation		<u>20,775,659</u>
		<u>\$ 14,690,989</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 would revert back to the original donor or their designee. These properties have a carrying balance of \$2,033,512 as of September 30, 2015, and are included in buildings and improvements shown above.

**NOTE 6 - INVESTMENTS**

Investments as of September 30, 2015, consist of the following:

Pooled investments:

Corporate stocks and bonds	\$ 1,440,118
Mutual funds	15,846,811
Limited partnerships (unaudited)	196,393
Other investments	<u>568</u>
	<u>\$ 17,483,890</u>

Non-pooled investments:

Mutual funds	\$ 1,468,831
Other investments	<u>24,301</u>
	<u>\$ 1,493,132</u>

Real estate held for investment purposes	<u>\$ 2,582,279</u>
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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2015**

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**NOTE 6 - INVESTMENTS, continued**

Real estate held for investment purposes consists primarily of donated land and is reported at the appraised value at the time of donation. During the year ended September 30, 2015, BCH recorded the receipt of \$450,640 of real estate not held for use in operations.

Investment income for the year ended September 30, 2015, was comprised of the following:

Interest and dividends	\$ 412,102
Realized and unrealized loss on investments	<u>(1,206,429 )</u>
	(794,327 )
Less – fees	<u>125,339</u>
	<u>\$ (919,666 )</u>

**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.

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.****Notes to Consolidated Financial Statements****September 30, 2015**

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**NOTE 7 - FAIR VALUE MEASUREMENTS, continued**

BCH has segregated its investments into the most appropriate level within the fair value hierarchy defined by GAAP at September 30, 2015, as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pooled investments:				
Corporate stocks and bonds	\$ 1,440,118	\$ 1,440,118	\$ -	\$ -
Mutual funds	15,846,811	15,846,811	-	-
Limited partnerships	196,393	-	-	196,393
Other investments	568	568	-	-
	<u>\$ 17,483,890</u>	<u>\$ 17,287,497</u>	<u>\$ -</u>	<u>\$ 196,393</u>
Non-pooled investments:				
Mutual funds	\$ 1,468,831	\$ 710,518	758,313	-
Other investments	24,301	-	-	24,301
	<u>\$ 1,493,132</u>	<u>\$ 710,518</u>	<u>\$ 758,313</u>	<u>\$ 24,301</u>
Real estate held for investment	<u>\$ 2,582,279</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,582,279</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 BCH's limited partnership investments are determined by the financial institution with custody of the investments. The value of other investments are determined by management based 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 ended September 30, 2015.

Balance, beginning of year	\$ 2,862,644
Sales	(421,419)
Contributions of real estate held for investment	450,640
Realized and unrealized loss	<u>(88,892)</u>
Balance, end of year	<u>\$ 2,802,973</u>



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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.****Notes to Consolidated Financial Statements****September 30, 2015**

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**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, alternatively, 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 that are 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 \$362,439 earned on these funds is included in other contributions for the year ended September 30, 2015.

**NOTE 10 - UNDISTRIBUTED WILLS AND BEQUESTS**

As of September 30, 2015, BCH was named as 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 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.

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**  
**Notes to Consolidated Financial Statements**  
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**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 were \$529,374 for the ended September 30, 2015.

**NOTE 13 - MORTGAGES PAYABLE**

During 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 ended September 30, 2015, BCH recorded donated interest related to this mortgage payable of \$21,127.

On May 15, 2012, BCH refinanced a mortgage originally entered into on February 25, 2009. The new note agreement with Wells Fargo requires ninety-five equal monthly payments of \$3,416, which include interest at a fixed rate of 4.4%, and is secured by a collateral interest in certain property of BCH. Any remaining outstanding principal and accrued interest is due April 25, 2020. The outstanding principal balance as of September 30, 2015, was \$150,098.

Future maturities of the above note are as follows:

During the year ending September 30,	
2016	\$ 34,236
2017	35,774
2018	37,380
2019	39,058
2020	3,650
	<hr/>
	\$ 150,098
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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**  
**Notes to Consolidated Financial Statements**  
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**NOTE 14 - OPERATING LEASES**

BCH leases various equipment and vehicles under non-cancelable operating leases. Minimum future rental payments under these leases are as follows:

Year ending September 30:	
2016	\$ 231,915
2017	173,056
2018	112,507
2019	35,813
2020	7,010
Total	<u>\$ 560,301</u>

Total lease payments related to the above leases made during the years ended September 30, 2015, were \$278,912.

**NOTE 15 - NET ASSETS**

Unrestricted net assets as of September 30, 2015, consisted of the following:

Designated by the Board of Trustees for:

Purchase and maintenance of property and equipment	\$ 2,298,426
Granting of scholarships and educational loans	1,270,324
Endowment	18,249,538
	<u>21,818,288</u>
Net investment in plant	14,118,359
Undesignated	<u>(7,234,876)</u>
	<u>\$ 28,701,771</u>

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

Temporarily restricted net assets at September 30, 2015, are available for the following:

Promises to give in future years	\$ 3,520,599
Granting of scholarships and educational loans	2,731,630
Purchase and maintenance of property and equipment	868,835
Payment of annuities payable	267,699
	<u>\$ 7,388,763</u>

Permanently restricted net assets of \$7,480,470 at September 30, 2015, 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.

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**BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.****Notes to Consolidated Financial Statements****September 30, 2015**

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**NOTE 16 - RENTAL INCOME**

BCH receives rent from various real estate holdings. The original terms of these leases range from month-to-month to periods ending by September 30, 2016. Minimum future rents under these leases are \$439,183.

**NOTE 17 - 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 September 30, 2015, includes \$2,258,082 at two 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 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 32 percent of its total support and revenue either directly from or indirectly through the Baptist State Convention of North Carolina, Inc. As of September 30, 2015, 51 percent of unconditional promises to give were from 3 donors. These concentrations of support and revenue and unconditional promises to give represent a significant risk that operations could be impacted should these funding sources reduce or discontinue their funding, or fail to make payments on their promises to give.

**NOTE 18 - 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 ended September 30, 2015, BCH incurred \$1,514,846 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, future cost could be significantly higher depending on actual employee health care claims.

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***BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.***  
**Notes to Consolidated Financial Statements**  
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**NOTE 18 - CONTINGENT LIABILITIES, continued**

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 the Organization 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.

**NOTE 19 - 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.