

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

***FINANCIAL STATEMENTS
SEPTEMBER 30, 2017***

BAPTIST CHILDREN’S HOMES OF NORTH CAROLINA, INC.

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September 30, 2017

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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. (the "BCH" - a nonprofit corporation), which comprise the consolidated statement of financial position as of September 30, 2017, and the related consolidated 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, 2017 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 the BCH's 2016 financial statements, and our report dated December 29, 2016, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

C. DeWitt Foard & Company, P.A.
January 3, 2018

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Financial Position****September 30, 2017, With Prior Year Comparative Totals**

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 7,777,931	\$ 5,982,366
Accounts receivable, net	1,160,529	935,206
Sales tax refunds receivable	219,279	69,944
Unconditional promises to give, net	1,585,270	5,171,311
Investments:		
Pooled assets	19,615,470	18,610,305
Non-pooled assets	2,881,875	1,500,391
Real estate held for investment	3,164,981	3,208,601
Student loans receivable, net	340,647	286,459
Prepaid expenses	146,428	137,648
Cash surrender value of life insurance	183,905	204,088
Property and equipment, net	16,193,455	15,190,540
<i>TOTAL ASSETS</i>	<i>\$ 53,269,770</i>	<i>\$ 51,296,859</i>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 832,596	\$ 812,771
Annuities payable	788,301	286,021
Notes payable	1,053,939	788,767
Total Liabilities	2,674,836	1,887,559
Net Assets:		
Unrestricted	34,172,929	32,701,359
Temporarily restricted	8,436,328	8,765,198
Permanently restricted	7,985,677	7,942,743
Total Net Assets	50,594,934	49,409,300
<i>TOTAL LIABILITIES AND NET ASSETS</i>	<i>\$ 53,269,770</i>	<i>\$ 51,296,859</i>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Activities****Year Ended September 30, 2017, With Prior Year Comparative Totals**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
<u>SUPPORT AND REVENUE</u>					
Cooperative program offering	\$ 1,608,870	\$ 1,066,008	\$ -	\$ 2,674,878	\$ 2,664,702
Contributions:					
Church offerings	3,064,731	-	-	3,064,731	2,755,563
Estate gifts and bequests:					
Cash	1,654,809	-	9,436	1,664,245	3,070,807
In-kind	433,930	-	-	433,930	626,322
Other gifts:					
Cash and promises	4,066,774	1,972,160	33,498	6,072,432	7,809,091
In-kind	811,418	-	-	811,418	507,645
Program service fees	7,955,897	-	-	7,955,897	6,887,053
Weekday education	1,095,111	-	-	1,095,111	1,128,273
Miscellaneous	128,946	62,091	-	191,037	102,056
Rent income	656,650	-	-	656,650	621,580
Gain (loss) on disposal of equipment	36,308	-	-	36,308	89,105
Investment income	1,543,945	457,341	-	2,001,286	965,613
Net assets released from restrictions:					
Satisfaction of time restrictions	1,435,194	(1,435,194)	-	-	-
Restrictions satisfied by payments	2,451,276	(2,451,276)	-	-	-
TOTAL SUPPORT AND REVENUE	26,943,859	(328,870)	42,934	26,657,923	27,227,810
<u>EXPENSES</u>					
Program Services:					
Weekday education	1,593,875	-	-	1,593,875	1,446,220
Family services	10,291,048	-	-	10,291,048	8,173,440
Enrichment activities	655,197	-	-	655,197	476,605
Group homes	1,021,774	-	-	1,021,774	926,785
Family care	1,277,357	-	-	1,277,357	1,087,773
Wilderness camps	2,365,992	-	-	2,365,992	2,031,364
Developmentally Disabled Ministries	2,436,141	-	-	2,436,141	2,115,933
Special Ministries	839,469	-	-	839,469	163,720
N.C. Baptist Aging Ministry	830,714	-	-	830,714	789,142
Emergency Care	753,615	-	-	753,615	691,363
Scholarships awarded	142,803	-	-	142,803	107,904
Total Program Services	22,207,985	-	-	22,207,985	18,010,249
Management and general	1,567,223	-	-	1,567,223	1,787,984
Fundraising	1,697,081	-	-	1,697,081	1,591,281
TOTAL EXPENSES	25,472,289	-	-	25,472,289	21,389,514
CHANGE IN NET ASSETS	1,471,570	(328,870)	42,934	1,185,634	5,838,296
NET ASSETS, BEGINNING	32,701,359	8,765,198	7,942,743	49,409,300	43,571,004
NET ASSETS, ENDING	\$ 34,172,929	\$ 8,436,328	\$ 7,985,677	\$ 50,594,934	\$ 49,409,300

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Functional Expenses****Year Ended September 30, 2017, With Prior Year Comparative Totals**

	Program Services						
	Weekday Education	Family Services	Enrichment Activities	Group Homes	Family Care	Wilderness Camps	Developmentally Disabled Ministries
<u>PERSONNEL</u>							
Salaries and wages	\$ 837,570	\$ 3,885,581	\$ 72,874	\$ 532,915	\$ 434,013	\$ 1,180,863	\$ 1,285,225
Benefits and taxes	269,908	1,410,575	13,715	209,226	146,385	451,640	451,919
Total Personnel	1,107,478	5,296,156	86,589	742,141	580,398	1,632,503	1,737,144
<u>OTHER EXPENSES</u>							
Utilities and insurance	44,597	410,603	162,517	23,393	101,602	91,420	78,139
Depreciation	48,452	394,295	67,709	22,243	155,763	120,692	115,935
Repairs and maintenance	185,848	2,235,528	318,261	37,168	205,349	165,257	84,326
Travel and auto	10,523	355,826	527	44,893	86,684	84,868	118,881
Other	44,673	93,428	193	3,246	19,719	8,749	43,900
Food	89,525	522,638	64	48,253	9,661	106,157	72,116
Postage and printing	592	7,090	-	151	838	3,282	2,218
Supplies	30,358	441,284	8,103	47,421	50,437	68,676	28,247
Child care personal incidentals	3,320	183,139	3,175	16,048	23,801	10,467	59,362
Telephone	8,316	63,631	4,727	9,640	20,434	16,693	34,969
Information technology	13,141	93,590	3,332	10,823	12,757	24,496	43,577
Memberships and training	4,941	65,799	-	1,635	1,167	26,414	15,496
Legal and accounting	2,111	15,337	-	-	946	2,652	1,831
Clothing	-	112,704	-	14,719	7,801	3,666	-
Scholarships and grants	-	-	-	-	-	-	-
TOTAL EXPENSES	\$ 1,593,875	\$ 10,291,048	\$ 655,197	\$ 1,021,774	\$ 1,277,357	\$ 2,365,992	\$ 2,436,141

Program Services								
Special Ministries	North Carolina	Emergency Care	Scholarships Awarded	Total	Management and General	Fundraising	Totals	
	Baptist Aging Ministry						2017	2016
\$ 313,522	\$ 427,217	\$ 318,958	\$ -	\$ 9,288,738	\$ 797,854	\$ 660,639	\$ 10,747,231	\$ 9,552,433
31,899	144,763	134,939	-	3,264,969	187,233	199,974	3,652,176	2,870,884
345,421	571,980	453,897	-	12,553,707	985,087	860,613	14,399,407	12,423,317
10,786	4,477	46,821	-	974,355	92,610	14,986	1,081,951	1,087,820
1,995	39,932	27,172	-	994,188	85,270	29,659	1,109,117	873,929
305,349	15,618	89,578	-	3,642,282	20,258	31,934	3,694,474	2,232,666
40,640	59,694	307	-	802,843	25,213	93,028	921,084	930,993
20,333	67,068	26,379	-	327,688	177,650	109,088	614,426	676,982
790	-	33,702	-	882,906	-	949	883,855	771,744
7,249	35,285	53	-	56,758	3,840	418,393	478,991	454,787
74,621	9,632	25,540	-	784,319	55,278	61,107	900,704	605,961
18,004	125	21,196	-	338,637	252	-	338,889	262,876
4,343	8,998	3,344	-	175,095	14,806	11,217	201,118	188,809
8,459	7,617	3,793	-	221,585	26,653	31,727	279,965	402,667
1,479	9,552	174	-	126,657	73,370	32,732	232,759	188,043
-	736	-	-	23,613	6,845	1,648	32,106	42,579
-	-	21,659	-	160,549	91	-	160,640	138,437
-	-	-	142,803	142,803	-	-	142,803	107,904
\$ 839,469	\$ 830,714	\$ 753,615	\$ 142,803	\$ 22,207,985	\$ 1,567,223	\$ 1,697,081	\$ 25,472,289	\$ 21,389,514

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Consolidated Statement of Cash Flows****Year Ended September 30, 2017, With Prior Year Comparative Totals**

	<u>2017</u>	<u>2016</u>
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,185,634	\$ 5,838,296
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation expense	1,109,117	873,929
Provision for uncollectable loans	140,222	45,662
Gain on disposal of equipment	(36,308)	(89,105)
Contributions restricted for long-term purposes	(1,954,120)	(3,812,733)
Contributions of real estate held for investment	(612,566)	(626,322)
Realized and unrealized gain on investments	(1,813,679)	(703,724)
Change in value of annuities payable	502,280	3,901
(Increase) decrease in operating assets:		
Accounts receivable	(225,323)	(40,079)
Sales tax refunds receivable	(149,335)	(29,585)
Unconditional promises to give	3,586,041	(723,204)
Prepaid expenses	(8,780)	(22,634)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	19,825	237,549
<i>Cash Flows From Operating Activities</i>	<i>1,743,008</i>	<i>951,951</i>
<u>INVESTING ACTIVITIES</u>		
Proceeds from sale of investments	4,701,156	6,599,423
Purchases of investments	(4,617,940)	(7,029,373)
Issuance of student loans, net of repayments	(194,410)	(112,540)
Proceeds from disposal of property and equipment	36,308	91,412
Purchases of property and equipment	(2,112,032)	(1,375,787)
Decrease in cash surrender value of life insurance	20,183	157,211
<i>Cash Flows From Investing Activities</i>	<i>(2,166,735)</i>	<i>(1,669,654)</i>
<u>FINANCING ACTIVITIES</u>		
Principal payments on notes	(194,829)	(151,777)
Proceeds from notes payable	460,001	367,914
Contributions restricted for long-term purposes	1,954,120	3,812,733
<i>Cash Flows From Financing Activities</i>	<i>2,219,292</i>	<i>4,028,870</i>
<i>CHANGE IN CASH AND CASH EQUIVALENTS</i>	<i>1,795,565</i>	<i>3,311,167</i>
<i>CASH AND CASH EQUIVALENTS, BEGINNING</i>	<i>5,982,366</i>	<i>2,671,199</i>
<i>CASH AND CASH EQUIVALENTS, ENDING</i>	<i>\$ 7,777,931</i>	<i>\$ 5,982,366</i>

SUPPLEMENTAL INFORMATION

Interest expense paid during the year	<u>\$ 19,157</u>	<u>\$ 2,151</u>
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*See accompanying notes to financial statements.**Page 6*

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.

Notes to Consolidated Financial Statements

September 30, 2017

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.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.

Notes to Consolidated Financial Statements

September 30, 2017

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 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 US Treasury interest rate.

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.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.
Notes to Consolidated Financial Statements
September 30, 2017

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 BCH recorded \$790,289 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.

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.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.
Notes to Consolidated Financial Statements
September 30, 2017

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, 2016 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 are receivable as follows:

Year ending September 30:

2018	\$	944,729
2019		509,762
2020		135,510
2021		66,300
2022		32,506
Thereafter		34,500
		<hr/>
		1,723,307
Less:		
Allowance for uncollectible contributions receivable		126,053
Present value discount on long-term promises to give		11,984
		<hr/>
	\$	<u>1,585,270</u>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.
Notes to Consolidated Financial Statements
September 30, 2017

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	\$ 225,555	\$ 160,452	\$ 386,007
Less allowance for uncollectibles	42,133	3,227	45,360
	<u>\$ 183,422</u>	<u>\$ 157,225</u>	<u>\$ 340,647</u>

NOTE 5 - 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	-	\$ 2,959,583
Buildings and improvements	10-20 years	26,545,840
Furniture, equipment and vehicles	5-15 years	6,004,566
Land improvements	5 years	1,733,139
Construction in progress	-	<u>527,370</u>
		37,770,498
Less - accumulated depreciation		<u>21,577,043</u>
		<u>\$ 16,193,455</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 \$364,268 as of year-end and are included in buildings and improvements shown above.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.
Notes to Consolidated Financial Statements
September 30, 2017

NOTE 6 - INVESTMENTS

Investments as of year-end consist of the following:

Pooled investments:

Corporate stocks	\$ 1,382,165
Mutual funds	18,149,517
Limited partnerships	83,267
Other investments	521
	<u>\$ 19,615,470</u>

Non-pooled investments:

Mutual funds	\$ 2,599,859
Corporate stocks	257,715
Other investments	24,301
	<u>\$ 2,881,875</u>

Real estate held for investment purposes \$ 3,164,981

Real estate held for investment purposes consists primarily of donated land and is reported at the appraised value at the time of donation.

Investment income for the year is comprised of the following:

Interest and dividends	\$ 316,212
Realized and unrealized gain on pooled and non-pooled investments	2,057,563
Realized and unrealized loss on real estate held for investment	(243,884)
	<u>2,129,891</u>
Less – fees	128,605
	<u>\$ 2,001,286</u>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2017**

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:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pooled investments:				
Corporate stocks	\$ 1,382,165	\$ 1,382,165	\$ -	\$ -
Mutual funds	18,149,517	18,149,517	-	-
Limited partnerships	83,267	-	-	83,267
Other investments	521	521	-	-
	<u>\$ 19,615,470</u>	<u>\$ 19,532,203</u>	<u>\$ -</u>	<u>\$ 83,267</u>
Non-pooled investments:				
Mutual funds	\$ 2,599,782	\$ 795,346	\$ 1,804,436	\$ -
Corporate stocks	257,715	257,715	-	-
Other investments	24,301	-	-	24,301
	<u>\$ 2,881,798</u>	<u>\$ 1,053,061</u>	<u>\$ 1,804,436</u>	<u>\$ 24,301</u>
Real estate held for investment	<u>\$ 3,164,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,164,981</u>

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2017**

NOTE 7 - FAIR VALUE MEASUREMENTS, continued

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 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	\$ 3,338,236
Contributions of real estate held for investment	612,566
Sales of real estate held for investments	(412,302)
Realized and unrealized loss	<u>(265,951)</u>
Balance, end of year	<u>\$ 3,272,549</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, 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 \$436,246 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 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, 2017**

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 - NOTES 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 BCH recorded donated interest related to this mortgage payable of \$21,127.

BCH has acquired vehicles with financing from loans from a local bank with a total balance due of \$631,407 at year-end. Repayment of these loans is to be made in monthly installments totaling \$17,476 including interest at 3.15 percent. These loans are secured by the vehicles acquired with the proceeds from the loans.

Future maturities of the above note are as follows:

During the year ending September 30,	
2018	\$ 192,593
2019	198,763
2020	204,685
2021	35,366
2022	-
Thereafter	422,532
	<hr/>
	\$ 1,053,939
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BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2017**

NOTE 13 - 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 \$687,329 for the year.

NOTE 14 - 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 \$275,363.

Minimum future rental payments under these leases are as follows:

Year ending September 30:	
2018	\$ 202,359
2019	130,733
2020	102,688
2021	87,506
2022	63,237
Thereafter	<u>15,100</u>
Total	<u>\$ 601,623</u>

NOTE 15 - NET ASSETS

Unrestricted net assets as of year-end consist of the following:

Designated by the Board of Trustees for:

Purchase and maintenance of property and equipment	\$ 1,661,716
Granting of scholarships and educational loans	1,401,883
Endowment	<u>20,249,397</u>
	23,312,996
Net investment in plant	15,770,923
Undesignated	<u>(4,910,990)</u>
	<u>\$ 34,172,929</u>

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

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.**Notes to Consolidated Financial Statements****September 30, 2017**

NOTE 15 - NET ASSETS, continued

Temporarily restricted net assets at year-end are available for the following:

Promises to give in future years	\$ 891,276
Granting of scholarships and educational loans	3,051,417
Purchase and maintenance of property and equipment	3,832,716
Payment of annuities payable	660,919
	<u>\$ 8,436,328</u>

Permanently restricted net assets of \$7,985,677 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 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, 2018. Minimum future rents under these leases are \$433,501.

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 year-end includes \$7,467,089 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 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 30 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 these funding sources reduce or discontinue their funding.

BAPTIST CHILDREN'S HOMES OF NORTH CAROLINA, INC.
Notes to Consolidated Financial Statements
September 30, 2017

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 BCH incurred \$1,743,448 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.

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 - COMMITMENT

At year-end, BCH had incurred a total of \$316,410 of costs related to a \$562,560 contract for the construction of a building located at the Mills Home campus. The remaining \$246,240 will be due as construction is completed after year-end.

NOTE 20 - 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.