



OKLAHOMA BAPTIST HOMES
FOR CHILDREN, INC.

Financial Statements
With Independent Auditors' Report

December 31, 2019 and 2018

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

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INDEPENDENT AUDITORS' REPORT

Audit Committee
Oklahoma Baptist Homes for Children, Inc.
Oklahoma City, Oklahoma

We have audited the accompanying financial statements of Oklahoma Baptist Homes for Children, Inc. which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from 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 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 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.

Audit Committee
Oklahoma Baptist Homes for Children, Inc.
Oklahoma City, Oklahoma

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Baptist Homes for Children, Inc., as of December 31, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Colorado Springs, Colorado
June 15, 2020

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Statements of Financial Position

	December 31,	
	2019	2018
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,905,726	\$ 2,303,085
Accounts receivable–BGCO and other	110,520	89,818
Unconditional promises to give	19,936	36,739
Pledge receivable–BGCO, net of unamortized discount	-	177,247
Asset held for sale	548,370	-
Prepaid expenses	48,374	44,247
	2,632,926	2,651,136
Investments	18,925,346	7,242,621
Fixed assets–net	11,984,479	13,095,528
Pledge receivable–BGCO, net of current portion and unamortized discount	-	382,698
Deposit and other	65,737	69,847
Beneficial interest in funds held by others	63,381,943	67,736,744
	\$ 96,990,431	\$ 91,178,574
Total Assets	\$ 96,990,431	\$ 91,178,574
LIABILITIES AND NET ASSETS:		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 651,782	\$ 703,390
Workers compensation liability	208	5,000
	651,990	708,390
Post-retirement benefits liability	1,991,273	1,937,309
	2,643,263	2,645,699
Net assets:		
Net assets without donor restrictions	19,976,064	17,409,770
Net assets with donor restrictions:		
Restricted by purpose or time	10,989,161	11,106,851
Restricted in perpetuity	63,381,943	60,016,254
	74,371,104	71,123,105
Total Liabilities and Net Assets	\$ 96,990,431	\$ 91,178,574

See notes to financial statements

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Statements of Activities

	Year Ended December 31,	
	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating Support, Revenue, and Other Additions:		
Contributions:		
Cooperative program contributions	\$ 662,738	\$ 663,472
Other contributions	5,202,508	6,016,555
	5,865,246	6,680,027
Revenue:		
Investment income—annual distribution	3,253,749	3,201,633
Other income	307,371	357,836
	3,561,120	3,559,469
Total Operating Support and Revenue	9,426,366	10,239,496
Net assets released from restriction:		
Purpose and time restrictions	1,056,236	1,938,446
Total Operating Support, Revenue and Other Additions	10,482,602	12,177,942
Program expenses:		
Children’s programs	7,079,006	7,241,994
Hope pregnancy centers	1,928,197	1,869,175
Supporting activities:		
Home office	2,015,078	1,721,133
Fund-raising	1,859,270	2,014,048
Total Operating Expenses	12,881,551	12,846,350
Change in Net Assets from Operations	(2,398,949)	(668,408)
Non-Operating Change in Net Assets Without Donor Restrictions:		
Other components of net periodic postretirement cost	(79,182)	(78,308)
Postretirement-related changes other than net periodic postretirement costs	28,043	458,435
Capital contributions	164,107	88,814
Investment income (loss)	4,852,275	(197,841)
Change in Net Assets from Non-Operating Activities	4,965,243	271,100
Change in Net Assets Without Donor Restrictions	2,566,294	(397,308)

(continued)

See notes to financial statements

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Statements of Activities

(continued)

	Year Ended December 31,	
	2019	2018
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating Support, Revenue, and Other Additions	10,482,602	12,177,942
Operating Expenses	(12,881,551)	(12,846,350)
Change in Net Assets from Operations	(2,398,949)	(668,408)
Change in Net Assets from Non-Operating Activities	4,965,243	271,100
Change in Net Assets Without Donor Restrictions	2,566,294	(397,308)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	1,817,832	1,588,343
Capital contributions	422,003	362,970
Contributions to beneficial trust	966,908	2,934,216
	3,206,743	4,885,529
Change in value of beneficial interests	1,097,492	(2,891,719)
Net assets released from restrictions:		
Purpose and time restrictions	(1,056,236)	(1,938,446)
Change in Net Assets with Donor Restrictions	3,247,999	55,364
Change in Net Assets	5,814,293	(341,944)
Net Assets, Beginning of Year	88,532,875	88,874,819
Net Assets, End of Year	\$ 94,347,168	\$ 88,532,875

See notes to financial statements

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 5,814,293	\$ (341,944)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,196,550	1,202,981
Donated fixed assets	(43,087)	-
Net realized and unrealized losses (gains) on investments	(4,852,275)	596,067
Income from amortization of discount on pledges receivable	38,270	(25,617)
Gain on sale of fixed assets	(117,196)	(74,222)
Contributions restricted for long-term purposes	(1,553,018)	(3,386,000)
Change in value of beneficial interest in funds held by others	(1,097,492)	2,891,719
Changes in operating assets and liabilities:		
Receivables, deposits, and other assets	(3,916)	(22,236)
Accounts payable, accrued liabilities, and post-retirement benefits liability	(170,766)	(776,472)
Net Cash (Used) Provided by Operating Activities	(788,637)	64,276
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(436,686)	(838,413)
Proceeds on sale of fixed assets	131,428	88,695
Payments on long-term pledge receivable	521,675	198,000
Net change in investments	(1,378,157)	(2,299,321)
Net Cash Used by Investing Activities	(1,161,740)	(2,851,039)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds for contributions restricted for:		
Long-term purposes	586,110	451,784
Contributions of beneficial interest in funds held by others	966,908	2,934,216
Net Cash Provided by Financing Activities	1,553,018	3,386,000
Change in Cash and Cash Equivalents	(397,359)	599,237
Cash and Cash Equivalents, Beginning of Year	2,303,085	1,703,848
Cash and Cash Equivalents, End of Year	\$ 1,905,726	\$ 2,303,085
SUPPLEMENTAL DATA:		
Contributed services and gifts-in-kind received	\$ 762,412	\$ 748,375
Beneficial interest assets moved to investments	\$ 6,419,201	\$ -
Fixed assets reclassified to asset held for sale	\$ 548,370	\$ -
Fixed asset additions not yet paid for	\$ 168,330	\$ -

See notes to financial statements

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

1. NATURE OF ORGANIZATION:

Oklahoma Baptist Homes for Children, Inc. (OBHC) is an Oklahoma not-for-profit organization supported primarily by private donations. OBHC was incorporated in September 1993 and began operations on January 1, 1994, to demonstrate God's love by providing hope through empowering children and their families to follow Christ. With donated funds, OBHC operates four homes or other living facilities for children in need and five hope pregnancy centers. Prior to 1994, OBHC was a division of the Baptist General Convention of Oklahoma (BGCO). OBHC is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state law(s). However, OBHC is subject to federal income tax on any unrelated business taxable income. In addition, OBHC is not classified as a private foundation within the meaning of Section 509(a) of the IRC.

2. SIGNIFICANT ACCOUNTING POLICIES:

OBHC maintains its accounts and prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of any contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from the estimates. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

For purposes of the statements of financial position and cash flows, OBHC considers cash on hand and deposits in banks to be cash and cash equivalents, excluding cash and cash equivalents related to OBHC's investment strategies held in investment accounts. OBHC maintains cash balances at financial institutions located in Oklahoma. As of December 31, 2019 and 2018, the cash accounts maintained exceeded federally insured limits by approximately \$2,277,000 and \$1,695,000, respectively. OBHC has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk.

UNCONDITIONAL PROMISES TO GIVE

OBHC records its unconditional promises at net realizable value. Unconditional promises to give are expected to be collected within one year. Management considers the entire balance collectible. Therefore, no allowance for uncollectible pledges has been made.

PLEDGE RECEIVABLE—BGCO

OBHC recorded its pledge receivable at net realizable value. The pledge was made during the fiscal year ending December 31, 2004. The pledge was paid off during the year ended December 31, 2019.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS AND INVESTMENT INCOME

Investments in pooled equity securities, fixed income instruments, spending policy pool, and church building loans are carried at net asset value. Mineral rights are carried at fair value. Gains and losses on pooled investments are reported in the statements of activities as increases or decreases in net assets without donor restrictions unless their use is temporarily or permanently restricted by donor stipulations or by law. See Note 7 for fair value measurements and disclosures.

The Baptist Foundation of Oklahoma (BFO) was created for the purpose of receiving and managing all investments for the various Baptist entities, including OBHC. The investments managed by BFO are separated into the following categories:

Custodial–Non-endowment investments for which the principal and income is directed by OBHC, including donor funds invested until expended for the specified purpose.

RISKS AND UNCERTAINTIES

Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term, and those changes could materially affect the financial statements.

ASSET HELD FOR SALE

Asset held for sale is recorded at the lower of carrying value or fair market value less the estimated cost to sell the property. Management anticipates this property will sell within one year of the statement of financial position date.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

FIXED ASSETS

Fixed assets are recorded at cost. It is OBHC's policy to capitalize all furniture and fixtures, equipment, and vehicles with a cost in excess of \$5,000 and all buildings and leasehold improvements with a cost in excess of \$25,000. The cost and related accumulated depreciation of assets sold or retired are removed from the accounts and the resulting gains or losses are included in the statements of activities. Maintenance repairs and minor renewals are expensed as incurred. These assets are depreciated over their estimated useful lives using the straight-line method. The following useful lives are used:

Furniture and fixtures	6-20 years
Equipment	6 years
Vehicles	3 years
Buildings and leasehold improvements	10-40 years

BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

OBHC is the beneficiary of certain irrevocable trusts held and administered by the BFO and others. Under the terms of perpetual trusts, OBHC has the irrevocable right to receive the income earned on the trust assets. The fair value is recognized as an asset and as a contribution with donor restrictions at the date the trust is established, based on the nature of the agreement. OBHC's estimate of fair value is based on fair value information received from the respective trustees. The assets consist of equities, pooled investments, and mineral interests. These assets are not subject to the control or discretion of OBHC. Gains and losses, which are not distributed by the trusts, are reflected as change in value of beneficial interests in the statements of activities. Distributions from the trusts not appropriated for spending are reflected as non-operating investment gains and losses. Quarterly distributions received for Q1-Q4 2019 were approximately \$910,000, \$858,000, \$810,000, and \$895,000, respectively.

Under the terms of other trusts, OBHC has an irrevocable right to receive their percentage share of the trust assets at a future date, usually the termination of the trust. These agreements constitute unconditional promises to give and are recognized as income in the period the promise is given. Gifts are valued by reducing total assets held by the BFO by the present value of estimated future income payments over the term of the agreement or life expectancy of the income beneficiary utilizing a five percent discount rate. The assets consist of pooled investments and mineral rights. These assets are not subject to the control or discretion of OBHC. Gains and losses, which are not distributed by the trusts, are reflected as change in value of beneficial interests in the statements of activities.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

POST RETIREMENT BENEFITS OTHER THAN PENSIONS

OBHC sponsors unfunded post-retirement health care, life insurance, and retirement gift benefits. These post-retirement benefits are offered to all full time employees that were hired prior to September 27, 1994. As of September 2012, OBHC decided to eliminate the retirement gifts to active employees upon retirement. Individuals who complete 15 years of current, continual service and retire at full retirement age set by social security will receive \$200 per month in a health reimbursement arrangement. Estimated costs of these benefits are recognized during the employees' active service period. Several assumptions are made in determining the obligation associated with the plan. The assumptions used in determining the obligation are described in detail in Note 9.

NET ASSET CLASSIFICATIONS

Net assets have been segregated to achieve a proper segregation and fair presentation of those resources available for use at the discretion of the board and those resources over which the board has little, if any, discretion as to use because of externally imposed restrictions. The following net asset segregations have been established for OBHC:

Net assets without donor restrictions are those resources over which the governing board has discretionary control to use in carrying on the operations of OBHC and those restricted in fixed assets-net.

Net assets with donor restrictions include resources of OBHC related to gifts with explicit donor-imposed restrictions that have not been met as to specified purpose, to later periods of time, or after specified dates. These include donor restrictions requiring the net asset to be held in perpetuity and permit OBHC to use all or part of the income earned on related investments for specific purposes.

SUPPORT AND REVENUE

Contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair values. The policy of OBHC is to record all donations postmarked before December 31 as deposits in transit. Contributions made, including unconditional promises to give, are recognized as expenses in the period made at their fair values. Conditional promises to give, whether received or made, are recognized when they become unconditional, that is, when the conditions are substantially met. For financial reporting purposes OBHC distinguishes between contributions of net assets without donor restrictions and net assets with donor restrictions.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, continued

OBHC reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated asset. If a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished in the same fiscal year as the year of the receipt of the gift, the gift is considered to be without donor restrictions. When a donor restriction expires on gifts previously classified as with donor restrictions, these net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as reclassifications of net assets. All contributed assets are reflected at the fair market value at the date of contribution. OBHC also receives donated services valued at the fair market value at the date of contribution. All donated materials and services, which were approximately \$762,000 and \$748,000, for the years ended December 31, 2019 and 2018, respectively, are reported as contributions in the statements of activities.

OBHC's cooperative program distributions are budgeted annually at the discretion of BGCO and are recognized when received. All other income is recorded when earned.

FUNCTIONAL ALLOCATION OF EXPENSES

Expenses are organized in both natural and functional classifications to provide useful information about the costs of significant programs or services provided by OBHC. Costs incurred are either directly related or allocated to a specific program or service. Main program activities of OBHC are pregnancy centers and children's programs.

WORKERS COMPENSATION INSURANCE

OBHC is self-insured with respect to workers' compensation claims. Monthly payments are made to a self-insured plan established by BGCO. This plan is self-insured to the extent of the excess liability insurance with an employer liability limit of \$1,000,000 per occurrence and a self-insured retention of \$125,000 per occurrence.

ADVERTISING COSTS

All advertising costs are expensed as incurred. Advertising costs were approximately \$84,000 and \$170,000, for the years ended December 31, 2019 and 2018, respectively.

OPERATING AND NON-OPERATING

OBHC classifies the activities related to its defined benefit post retirement liability other than net periodic benefit costs, changes in its charitable remainder interests, capital contributions, and activities relating to its beneficial interests other than the distributions appropriated for expenditure as non-operating. All remaining activities are general operations of OBHC.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ISSUED ACCOUNTING STANDARDS

In 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. OBHC adopted the provisions of this new standard during the year ended December 31, 2019. This new standard provides guidance on determining whether transactions should be accounted for as an exchange transaction or a contribution and whether a contribution should be recorded as conditional or unconditional. This standard did not have a material impact on the presentation of the December 31, 2019 financial statements.

In 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*. OBHC early adopted the provisions of this new standard during the year ended December 31, 2019. This new standard applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Adoption of this standard had no effect on change in net assets or net assets in total.

3. INVESTMENTS:

Investments consist of:

		December 31, 2019			
		Without Donor Restrictions	With Donor Restrictions (Purpose/Time)	With Donor Restrictions (In Perpetuity)	Total
	Custodial funds	\$ 11,058,871	\$ 7,818,526	\$ -	\$ 18,877,397
	Other	47,949	-	-	47,949
		\$ 11,106,820	\$ 7,818,526	\$ -	\$ 18,925,346
		December 31, 2018			
		Without Donor Restrictions	With Donor Restrictions (Purpose/Time)	With Donor Restrictions (In Perpetuity)	Total
	Custodial funds	\$ 6,262,326	\$ 925,055	\$ -	\$ 7,187,381
	Other	55,240	-	-	55,240
		\$ 6,317,566	\$ 925,055	\$ -	\$ 7,242,621

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

4. FIXED ASSETS–NET:

Fixed assets–net consist of:

	December 31,	
	2019	2018
Land	\$ 1,707,778	\$ 1,742,707
Furniture and fixtures	174,017	174,017
Equipment	1,944,834	1,890,047
Vehicles	1,962,371	1,844,913
Buildings and leasehold improvements	28,177,119	28,685,721
	33,966,119	34,337,405
Less accumulated depreciation	(22,215,576)	(21,416,217)
	11,750,543	12,921,188
Construction in progress	233,936	174,340
	\$ 11,984,479	\$ 13,095,528

5. NET ASSETS:

Net assets without donor restrictions consist of:

	December 31,	
	2019	2018
Operating	\$ 7,721,330	\$ 4,023,137
Equity in fixed assets–net	11,984,479	13,095,528
Equity in separation from service benefits	270,255	291,105
	\$ 19,976,064	\$ 17,409,770

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

5. NET ASSETS, continued:

Net assets with donor restrictions are available for the following purposes:

	December 31,	
	2019	2018
Subject to expenditure for specified purpose:		
Children's programs	\$ 128,140	\$ 140,055
Scholarships	230,201	113,971
Construction projects	1,325,444	925,474
Boys Ranch Town	3,970,228	554,626
Baptist Home for Girls	332,677	337,102
Hope Pregnancy Centers and Aftercare	939,699	596,685
Baptist Children's Home, Owasso	495,744	311,790
Baptist Children's Home, Oklahoma City	3,492,947	218,609
Home office, development, and other	74,081	167,995
	10,989,161	3,366,307
Subject to the passage of time:		
Beneficial interest in funds held by others	1,516,808	7,730,544
Subject to restriction in perpetuity:		
Beneficial interest in funds held by others:		
Children's programs	59,870,327	58,116,197
Scholarships	1,333,864	1,278,283
Buildings, cottages, and maintenance	660,944	621,774
	61,865,135	60,016,254
	\$ 74,371,104	\$ 71,113,105

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

6. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects OBHC's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

	December 31,	
	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 1,905,726	\$ 2,303,085
Accounts receivable–BGCO and other	110,520	89,818
Unconditional promises to give	19,936	36,739
Pledge receivable–BGCO, net of unamortized discount	-	559,945
Investments	18,925,346	7,242,621
Asset held for sale	548,370	-
Beneficial interest in funds held by others	63,381,943	67,736,744
Financial assets, at year-end	84,891,841	77,968,952
Less those unavailable for general expenditures within one year, due to:		
Assets restricted by donor with purpose restrictions	(3,170,635)	(2,451,252)
Investments restricted by donor with purpose restrictions	(7,818,526)	(925,055)
Beneficial interest in funds held by others	(63,381,943)	(67,736,744)
Pledge receivable beyond one year	-	(382,698)
Plus those available for general expenditures within one year, due to:		
Annual distribution to be used within one year	-	3,971,937
	(74,371,104)	(67,523,812)
Financial assets available to meet cash needs for general expenditures within one year	\$ 10,520,737	\$ 10,445,140

Management has an unofficial and unwritten policy of maintaining the BFO custodial accounts at a minimum of 6 months' worth of the budgeted expenses.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

7. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES:

OBHC uses the fair valuation methodologies of BFO. In determining fair value, BFO uses various valuation approaches. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. BFO uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the BFO measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that BFO has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by BFO in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

7. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued:

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, BFO's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

Cash and cash equivalents: The carrying value approximates fair value.

Investments:

Bond mutual funds

The fair values are based on quoted market prices of these investments.

Pooled charitable spending policy funds

The pooled charitable spending policy funds are calculated based on a number of factors including obtaining an understanding of the funds' underlying investments, strategy, positions and valuation and comparing information provided by the fund administrator or general partner to other available information such as sector data and indexes. OBHC's interest is carried at net asset value. There are no redemption restrictions or capital calls on the funds valued at net asset value.

Mineral interests

The fair value of mineral interests is determined by using an income approach using recent past income produced by the income property.

Beneficial interest in funds held by others:

The fair value of beneficial interest in funds held by others is estimated as the present value of future trusts payments, based upon OBHC's proportionate share of the trust's assets as represented by the fund manager for charitable remainder trusts and the underlying net asset value of pooled funds for beneficial interests to be held in perpetuity.

Post retirement benefit liability:

The present value of the post-retirement benefit liability is calculated using the estimated benefits to be paid based on the life expectancy using mortality tables as calculated by an actuary.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

7. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued:

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Bond mutual fund	\$ 47,949	\$ 47,949	\$ -	\$ -
Mineral interests	389,541	-	-	389,541
	437,490	\$ 47,949	\$ -	\$ 389,541
Reconciling items at net asset value:				
Pooled charitable spending policy	13,449,149			
Reconciling items at cost:				
Cash and cash equivalents	5,038,707			
Total Investments	\$ 18,925,346			
Beneficial interest in funds				
held by others	\$ 63,381,943	\$ -	\$ 63,381,943	\$ -
Liabilities:				
Post-retirement benefits liability	\$ 1,991,273	\$ -	\$ 1,991,273	\$ -

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

7. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued:

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Bond mutual fund	\$ 55,240	\$ 55,240	\$ -	\$ -
Mineral interests	60,255	-	-	60,255
	115,495	\$ 55,240	\$ -	\$ 60,255
Reconciling items at net asset value:				
Pooled charitable spending policy	5,314,434			
Reconciling items at cost:				
Cash and cash equivalents	1,812,692			
Total Investments	\$ 7,242,621			
Beneficial interest in funds				
held by others	\$ 67,736,744	\$ -	\$ 67,736,744	\$ -
Liabilities:				
Post-retirement benefits liability	\$ 1,937,309	\$ -	\$ 1,937,309	\$ -

The following table provides further details of the Level 3 fair value measurements:

	Year Ended December 31,	
	2019	2018
Beginning balance	\$ 60,255	\$ 75,083
Additional investments	29,000	141
Investment gains (losses)	300,286	(14,969)
Ending balance	\$ 389,541	\$ 60,255

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

8. EXPENSES INCURRED:

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of OBHC. These expenses include depreciation and amortization, information technology, and facilities operations and maintenance. Building depreciation and amortization and facilities operations and maintenance is allocated based on square footage or specific assets used. Costs of information technology were allocated on estimates of time and effort. Total expense includes all operating expenses and the nonoperating expense of other components of net periodic postretirement cost, which is included in Home Office salaries, wages, and benefits and totaled \$82,007 and \$82,904, for the years ending December 31, 2019 and 2018, respectively.

Expenses of OBHC are allocated to functional classifications as follows:

	Year Ended December 31, 2019				
	Program Activities		Supporting Activities		Total
	Children's Programs	Hope Pregnancy Centers	Home Office	Fundraising	
Salaries, wages, and benefits	\$ 3,125,948	\$ 874,321	\$ 1,155,510	\$ 1,392,309	\$ 6,548,088
Food, accommodations and supplies	1,399,522	452,822	27,725	250,447	2,130,516
Facilities and maintenance	1,459,139	183,991	-	112,366	1,755,496
Depreciation	914,721	176,297	85,518	20,014	1,196,550
Office and professional fees	85,910	217,966	771,943	57,288	1,133,107
Travel and other	93,766	22,800	53,564	26,846	196,976
	\$ 7,079,006	\$ 1,928,197	\$ 2,094,260	\$ 1,859,270	\$ 12,960,733

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

8. EXPENSES INCURRED, continued:

Expenses of OBHC are allocated to functional classifications as follows:

	Year Ended December 31, 2018				
	Program Activities		Supporting Activities		Total
	Children's Programs	Hope Pregnancy Centers	Home Office	Fundraising	
Salaries, wages, and benefits	\$ 3,180,998	\$ 910,552	\$ 1,110,959	\$ 1,546,597	\$ 6,749,106
Food, accommodations and supplies	1,272,813	394,204	33,217	296,813	1,997,047
Facilities and maintenance	1,667,590	231,598	-	54,176	1,953,364
Depreciation	921,812	179,140	77,650	30,379	1,208,981
Office and professional fees	88,867	133,891	538,686	63,298	824,742
Travel and other	109,914	19,790	38,929	22,785	191,418
	\$ 7,241,994	\$ 1,869,175	\$ 1,799,441	\$ 2,014,048	\$ 12,924,658

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

9. POST RETIREMENT EMPLOYEE BENEFITS:

A summary of the post-retirement benefit liability is as follows:

	December 31, 2019		
	Health Care	Life Insurance	Total
Inactive retired participants	\$ 1,471,180	\$ 49,817	\$ 1,520,997
Active fully eligible participants	360,152	-	360,152
Active other participants	110,124	-	110,124
	\$ 1,941,456	\$ 49,817	\$ 1,991,273
	December 31, 2018		
	Health Care	Life Insurance	Total
Inactive retired participants	\$ 1,198,169	\$ 52,671	\$ 1,250,840
Active fully eligible participants	608,401	-	608,401
Active other participants	78,068	-	78,068
	\$ 1,884,638	\$ 52,671	\$ 1,937,309

The following tables provide a reconciliation of the changes in the post-retirement benefit obligations and the assumptions used in the actuarial calculations for each year:

	Year Ended December 31,	
	2019	2018
Benefit obligation at beginning of year	\$ 1,937,309	\$ 2,312,840
Net periodic postretirement costs	82,007	82,904
Postretirement-related changes other than net periodic postretirement cost	(28,043)	(458,435)
Benefit obligation at end of year	\$ 1,991,273	\$ 1,937,309

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

9. POST RETIREMENT EMPLOYEE BENEFITS, continued:

	Year Ended December 31,	
	2019	2018
Net periodic postretirement cost, included in functional expenses:		
Service cost	\$ 2,825	\$ 4,596
Interest costs	79,182	78,308
Net periodic postretirement cost other than service cost	79,182	78,308
Net periodic postretirement costs	\$ 82,007	\$ 82,904

Net periodic postretirement cost other than service cost is report as other components of net periodic postretirement cost on the statements of activities.

Postretirement-related changes other than net periodic postretirement cost, included in nonoperating activities, are as follows:

	Year Ended December 31,	
	2019	2018
Change in discount rate assumption	\$ 228,399	\$ (187,651)
Change in other assumptions	(136,090)	(120,698)
Actuarial loss (gain)	(39,181)	(66,865)
Benefits paid	(81,171)	(83,221)
	\$ (28,043)	\$ (458,435)

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

9. POST RETIREMENT EMPLOYEE BENEFITS, continued:

Assumptions:

	December 31,	
	2019	2018
Projected health care trend rate (Medical/Rx)	3.8%/5.9%	3.2%/6.9%
Ultimate trend rate (Medical/Rx)	3.8%/5.25%	3.2%/5.25%
Year ultimate trend rate is achieved	2027	2026
Discount rate	3.15%	4.18%

The mortality basis was updated in 2019 to the Pri-2012 total dataset (generational projection using MP-2019-GFR) from the RP-2014 total dataset (generational projection using MP-2018-GFR).

Expected benefit payments for the post-retirement plan for the next ten years are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 101,269
2021	107,668
2022	105,416
2023	105,910
2024	103,711
2025 through 2029	563,012
	\$ 1,086,986

10. PENSION PLAN:

All full time employees of OBHC are eligible to participate in a defined contribution pension plan through GuideStone Financial Resources of the Southern Baptist Convention. Under the plan, OBHC contributes an amount equal to five percent of participating employees' salaries. OBHC also matches employee contributions up to 2.5 percent of participating employees' salaries. When an employee reaches year five of employment, employees are eligible to increase matching contributions from 2.5 percent to up to five percent of salary. Employee contributions are voluntary. Total pension expense for the years ended December 31, 2019 and 2018, was \$387,591 and \$375,968, respectively.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

11. RELATED PARTIES:

OBHC is affiliated with all organizations whose directors or trustees are elected by the participating churches of the Baptist General Convention of the State of Oklahoma at its annual meeting. Principal affiliates of OBHC are BGCO, BFO, Oklahoma Baptist University, and Baptist Village Communities of Oklahoma, Inc. As of December 31, 2019 and 2018, OBHC had amounts due from related parties of approximately \$110,500 and \$89,800, respectively. As of December 31, 2019 and 2018, OBHC had amounts due to related parties of approximately \$21,200 and \$155,200, respectively.

As discussed in Note 2, BFO holds and manages investments and beneficial interests in funds held by others on behalf of OBHC. As of December 31, 2019 and 2018, investments and beneficial interests in funds held by BFO on behalf of OBHC were approximately \$81,000,000 and \$74,000,000, respectively. In relation to holding and managing OBHC's investments, BFO charged total fees of approximately \$708,000 and \$676,000, for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2018, OBHC had a long-term pledge receivable, net of discount of \$559,945, respectively, due from BGCO (see Note 12). The receivable was paid off during the year ended December 31, 2019. OBHC also made rent payments to BGCO for office space totaling \$92,190 for both the years ended December 31, 2019 and 2018.

Additionally, OBHC receives contributions from related parties, including committee members, strategic advisors, members of management, and other related parties. These amounts were approximately \$212,000 and \$248,000, for the year ended December 30, 2019 and 2018, respectively.

12. PLEDGE RECEIVABLE-BGCO:

Effective March 23, 2004, the balance of OBHC's investment in Baptist Building Corporation (BBC) was replaced with a pledge receivable due from BBC. In May 2007, BBC was dissolved and the pledge was assumed by BGCO. The pledge, which did not have a stated interest rate, had a face amount of \$3,518,890 and was due in 213 monthly payments of \$16,500 and one final payment of \$4,390. As of December 31, 2018, the pledge had a balance of \$559,945 and was reflected net of an unamortized discount of \$38,445. The original discount at the inception of the pledge was \$1,234,814, based on a discount rate of 5.19 percent. Income of \$25,617 was recognized in the statements of activities for the year ended December 31, 2018 from amortization of the discount. The pledge was paid off during the year ended December 31, 2019.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2019 and 2018

13. SUBSEQUENT EVENTS:

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus as a “Public Health Emergency of International Concern,” ultimately classifying the resulting COVID-19 as a pandemic. Federal, state and local governments have mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home advisories and quarantining of people who may have been exposed to the virus.

The duration of disruption and related impact cannot be reasonably estimated at this time. OBHC management is monitoring donation income and program receipts and mission critical expenditures. Expenditures are being monitored and will be adjusted as prudent, while attempting to maintain OBHC’s ministries at their current level. Management believes that OBHC has sufficient reserves and liquidity to fund ongoing essential ministries through this time of uncertainty, however the long-term impact on OBHC’s revenues are uncertain.

On April 13, OBHC received a \$1,139,300 loan as part of the Paycheck Protection Program (PPP) from the US Small Business Administration (SBA). OBHC intends to use these funds to support payroll costs, for all staff with no reduction in personnel, as well as other qualifying expenditures. The loan will mature in April 2022 and accrues interest at 1%, with loan payments being deferred for six months. Due to the uncertainty of the economic impact of the pandemic on both OBHC donors as well as the investments managed by the BFO, the SBA PPP loan was determined by management to be both prudent and necessary to ensure OBHC’s continued ability to minister to Oklahoma families in need.

Subsequent events have been evaluated through June 15, 2020, which represents the date the financial statements were available to be issued.