



OKLAHOMA BAPTIST HOMES  
FOR CHILDREN, INC.

Financial Statements  
With Independent Auditors' Report

December 31, 2020 and 2019

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	6
Notes to Financial Statements	7

## **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, 2020 and 2019, 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, 2020 and 2019, 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  
May 11, 2021

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Statements of Financial Position

	December 31,	
	2020	2019
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 3,171,674	\$ 1,905,726
Accounts receivable—Oklahoma Baptists and other	198,314	130,456
Prepaid expenses	144,307	48,374
Asset held for sale	548,370	548,370
	4,062,665	2,632,926
Investments	20,289,003	18,925,346
Fixed assets—net	12,120,444	11,984,479
Deposit and other	61,980	65,737
Beneficial interest in funds held by others	65,386,192	63,381,943
	\$ 101,920,284	\$ 96,990,431
Total Assets	\$ 101,920,284	\$ 96,990,431
<b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 614,469	\$ 651,990
Payroll protection program loan, current portion	851,136	-
	1,465,605	651,990
Payroll protection program loan, less current portion	288,164	-
Post-retirement benefits liability	2,433,043	1,991,273
	4,186,812	2,643,263
Net assets:		
Net assets without donor restrictions	20,236,904	19,976,064
Net assets with donor restrictions:		
Restricted by purpose or time	13,675,201	12,505,969
Restricted in perpetuity	63,821,367	61,865,135
	77,496,568	74,371,104
	97,733,472	94,347,168
Total Liabilities and Net Assets	\$ 101,920,284	\$ 96,990,431

See notes to financial statements

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Statements of Activities

	Year Ended December 31,	
	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating Support, Revenue, and Other Additions:		
Contributions:		
Cooperative program contributions	\$ 606,948	\$ 662,738
Other contributions	6,071,108	5,202,508
	6,678,056	5,865,246
Revenue:		
Investment income—distributions appropriated	3,382,020	3,253,749
Other income	152,044	307,371
	3,534,064	3,561,120
Total Operating Support and Revenue	10,212,120	9,426,366
Net assets released from restriction:		
Purpose and time restrictions	1,914,342	1,138,702
Total Operating Support, Revenue and Other Additions	12,126,462	10,565,068
Operating expenses:		
Program expenses:		
Children’s programs	6,731,136	7,079,006
Hope pregnancy centers	1,969,761	1,928,197
Supporting activities:		
Home office	1,981,733	2,015,078
Fund-raising	1,738,024	1,859,270
	12,420,654	12,881,551
Change in Net Assets from Operations	(294,192)	(2,316,483)
Non-Operating Change in Net Assets Without Donor Restrictions:		
Other components of net periodic postretirement cost	(61,263)	(79,182)
Postretirement-related changes other than net periodic postretirement costs	(376,661)	28,043
Capital contributions	368,533	164,107
Investment income	624,423	4,852,275
Change in Net Assets from Non-Operating Activities	555,032	4,965,243
Change in Net Assets Without Donor Restrictions	260,840	2,648,760

(continued)

See notes to financial statements

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Statements of Activities

(continued)

	Year Ended December 31,	
	2020	2019
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>		
Operating Support, Revenue, and Other Additions	12,126,462	10,565,068
Operating Expenses	(12,420,654)	(12,881,551)
Change in Net Assets from Operations	(294,192)	(2,316,483)
Change in Net Assets from Non-Operating Activities	555,032	4,965,243
Change in Net Assets Without Donor Restrictions	260,840	2,648,760
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:</b>		
Contributions	1,713,642	1,592,592
Capital contributions	1,179,843	422,003
Contributions to beneficial trust	566,100	966,908
Total Contributions	3,459,585	2,981,503
Investment income	142,072	225,240
Change in value of beneficial interests	1,438,149	1,097,492
Net assets released from restrictions:		
Purpose and time restrictions	(1,914,342)	(1,138,702)
Change in Net Assets with Donor Restrictions	3,125,464	3,165,533
Change in Net Assets	3,386,304	5,814,293
Net Assets, Beginning of Year	94,347,168	88,532,875
Net Assets, End of Year	\$ 97,733,472	\$ 94,347,168

See notes to financial statements

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Statements of Cash Flows

	Year Ended December 31,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 3,386,304	\$ 5,814,293
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,177,101	1,196,550
Donated fixed assets	-	(43,087)
Net realized and unrealized gains on investments	(766,495)	(4,852,275)
Income from amortization of discount on pledges receivable	-	38,270
(Gain) loss on sale of fixed assets	3,512	(117,196)
Contributions restricted for long-term purposes	(2,114,476)	(1,553,018)
Change in value of beneficial interest in funds held by others	(1,438,149)	(1,097,492)
Changes in operating assets and liabilities:		
Receivables, deposits, and other assets	(160,034)	(3,916)
Accounts payable, accrued liabilities, and post-retirement benefits liability	404,249	(170,766)
Net Cash Provided (Used) by Operating Activities	492,012	(788,637)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	(1,337,778)	(436,686)
Proceeds on sale of fixed assets	21,200	131,428
Payments on long-term pledge receivable	-	521,675
Purchases of investments	(4,557,159)	(8,303,609)
Proceeds from sale of investments	3,393,897	6,925,452
Net Cash Used by Investing Activities	(2,479,840)	(1,161,740)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds for contributions restricted for:		
Capital projects	1,548,376	586,110
Beneficial interest in funds held by others	566,100	966,908
Proceeds from payroll protection program loan	1,139,300	-
Net Cash Provided by Financing Activities	3,253,776	1,553,018
Change in Cash and Cash Equivalents	1,265,948	(397,359)
Cash and Cash Equivalents, Beginning of Year	1,905,726	2,303,085
Cash and Cash Equivalents, End of Year	\$ 3,171,674	\$ 1,905,726
<b>SUPPLEMENTAL DATA:</b>		
Contributed services and gifts-in-kind received	\$ 652,514	\$ 762,412
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, 2020 and 2019

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 six hope pregnancy centers, including a mobile unit. Prior to 1994, OBHC was a division of the Baptist General Convention of Oklahoma (Oklahoma Baptists). 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, 2020 and 2019, the cash accounts maintained exceeded federally insured limits by approximately \$2,579,000 and \$2,277,000, respectively. OBHC has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk.

### 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 estimated 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 restricted by purpose, time, or in perpetuity by donor stipulations or by law. See Note 7 for fair value measurements and disclosures.

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### INVESTMENTS AND INVESTMENT INCOME, continued

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

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

Other–Bond mutual funds held for use in the 403(b) retirement plan.

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 consists of a building that is currently on the market. It 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.

#### 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

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

OBHC is the beneficiary of certain irrevocable trusts held and administered by the WatersEdge 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 2020, were approximately \$814,000, \$877,000, \$854,000, and \$1,021,000, respectively. 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 WatersEdge 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.

#### 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.

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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.

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 \$653,000 and \$762,000, for the years ended December 31, 2020 and 2019, respectively, are reported as contributions in the statements of activities.

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

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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 Oklahoma Baptists. 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 \$128,000 and \$170,000, for the years ended December 31, 2020 and 2019, 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, 2020 and 2019

3. INVESTMENTS:

Investments consist of:

	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions (Purpose/Time)	Total
Custodial funds	\$ 13,068,068	\$ 7,181,415	\$ 20,249,483
Other	39,520	-	39,520
	\$ 13,107,588	\$ 7,181,415	\$ 20,289,003
	December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions (Purpose/Time)	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

4. FIXED ASSETS—NET:

Fixed assets—net consist of:

	December 31,	
	2020	2019
Land	\$ 1,707,778	\$ 1,707,778
Furniture and fixtures	174,017	174,017
Equipment	2,050,120	1,944,834
Vehicles	2,093,340	1,962,371
Buildings and improvements	28,449,254	28,177,119
	34,474,509	33,966,119
Less accumulated depreciation	(23,206,696)	(22,215,576)
	11,267,813	11,750,543
Construction in progress	852,631	233,936
	\$ 12,120,444	\$ 11,984,479

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

5. NET ASSETS:

Net assets without donor restrictions consist of:

	December 31,	
	2020	2019
Operating	\$ 7,310,734	\$ 7,172,960
Equity in assets held for sale	548,370	548,370
Equity in fixed assets—net	12,120,444	11,984,479
Equity in separation from service benefits	257,356	270,255
	\$ 20,236,904	\$ 19,976,064

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

	December 31,	
	2020	2019
Subject to expenditure for specified purpose:		
Children’s programs	\$ 44,373	\$ 128,140
Scholarships	315,957	230,201
Construction projects	2,439,480	1,325,444
Boys Ranch Town	3,849,648	3,970,228
Baptist Home for Girls	411,074	332,677
Hope Pregnancy Centers and Aftercare	853,245	939,699
Baptist Children’s Home, Owasso	488,760	495,744
Baptist Children’s Home, Oklahoma City	3,266,104	3,492,947
Home office, development, and other	438,508	74,081
	12,107,149	10,989,161
Subject to the passage of time:		
Beneficial interest in funds held by others	1,568,052	1,516,808
Subject to restriction in perpetuity:		
Beneficial interest in funds held by others:		
Children’s programs	61,729,198	59,870,327
Scholarships	1,404,798	1,333,864
Buildings, cottages, and maintenance	687,371	660,944
	63,821,367	61,865,135
	\$ 77,496,568	\$ 74,371,104

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

6. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects OBHC's financial assets 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,	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 3,171,674	\$ 1,905,726
Accounts receivable—Oklahoma Baptists and other	198,314	130,456
Investments	20,289,003	18,925,346
Beneficial interest in funds held by others	65,386,192	63,381,943
Financial assets, at year-end	<u>89,045,183</u>	<u>84,343,471</u>
Less those unavailable for general expenditures within one year, due to:		
Assets restricted by donor with purpose restrictions	(6,476,534)	(3,170,635)
Investments restricted by donor with purpose restrictions	(6,406,015)	(7,818,526)
Beneficial interest in funds held by others	<u>(65,386,192)</u>	<u>(63,381,943)</u>
	<u>(78,268,741)</u>	<u>(74,371,104)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,776,442</u>	<u>\$ 9,972,367</u>

Management has an unofficial and unwritten policy of maintaining the WatersEdge custodial accounts at a minimum of 6 months' worth of the budgeted expenses. OBHC will receive approximately \$3,500,000 of distributions during the year ended, December 31, 2021 that can be used at the discretion of the board of directors.



# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

### 7. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES:

OBHC uses the fair valuation methodologies of WatersEdge. In determining fair value, WatersEdge 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. WatersEdge uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the WatersEdge 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 WatersEdge 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 WatersEdge 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, 2020 and 2019

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, WatersEdge's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

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, 2020 and 2019

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:

	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)
<u>December 31, 2020:</u>				
Assets:				
Investments:				
Bond mutual fund	\$ 39,520	\$ 39,520	\$ -	\$ -
Mineral interests	223,850	-	-	223,850
	263,370	\$ 39,520	\$ -	\$ 223,850
Reconciling items at net asset value:				
Pooled charitable spending policy	13,882,309			
Reconciling items at cost:				
Cash and cash equivalents	6,143,324			
Total Investments	\$ 20,289,003			
Beneficial interest in funds held by others	\$ 65,386,192	\$ -	\$ 65,386,192	\$ -
Liabilities:				
Post-retirement benefits liability	\$ 2,433,043	\$ -	\$ 2,433,043	\$ -

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

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

	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)
<u>December 31, 2019:</u>				
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	\$ -

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

	Year Ended December 31,	
	2020	2019
Beginning balance	\$ 389,541	\$ 60,255
Additional investments	-	29,000
Investment distributions	-	-
Investment gains (losses)	(165,691)	300,286
Ending balance	\$ 223,850	\$ 389,541

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

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 \$65,109 and \$82,007, for the years ending December 31, 2020 and 2019, respectively.

Expenses of OBHC are allocated to functional classifications as follows:

	Year Ended December 31, 2020				
	Program Activities		Supporting Activities		Total
	Children's Programs	Hope Pregnancy Centers	Home Office	Fundraising	
Salaries, wages, and benefits	\$ 3,292,461	\$ 983,738	\$ 1,222,846	\$ 1,428,905	\$ 6,927,950
Facilities and maintenance	1,457,577	247,791	296,782	21,164	2,023,314
Food, accommodations and supplies	944,652	348,217	14,540	186,979	1,494,388
Depreciation	899,516	202,487	49,575	25,523	1,177,101
Office and professional fees	73,002	174,660	430,753	50,281	728,696
Travel and other	63,928	12,868	32,346	25,172	134,314
	6,731,136	1,969,761	2,046,842	1,738,024	12,485,763
Less nonoperating expense	-	-	(65,109)	-	(65,109)
Total Operating Expenses	\$ 6,731,136	\$ 1,969,761	\$ 1,981,733	\$ 1,738,024	\$ 12,420,654

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

8. EXPENSES INCURRED, continued:

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
Facilities and maintenance	1,459,139	183,991	269,814	112,366	2,025,310
Food, accommodations and supplies	1,399,522	452,822	27,725	250,447	2,130,516
Depreciation	914,721	176,297	85,518	20,014	1,196,550
Office and professional fees	85,910	217,966	504,954	57,288	866,118
Travel and other	93,766	22,800	53,564	26,846	196,976
	7,079,006	1,928,197	2,097,085	1,859,270	12,963,558
Less nonoperating expense	-	-	(82,007)	-	(82,007)
Total Operating Expenses	\$ 7,079,006	\$ 1,928,197	\$ 2,015,078	\$ 1,859,270	\$ 12,881,551

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

9. POST RETIREMENT EMPLOYEE BENEFITS:

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

	December 31, 2020		
	Health Care	Life Insurance	Total
Inactive retired participants	\$ 1,944,565	\$ 49,992	\$ 1,994,557
Active fully eligible participants	225,282	-	225,282
Active other participants	213,204	-	213,204
	\$ 2,383,051	\$ 49,992	\$ 2,433,043

  

	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

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,	
	2020	2019
Benefit obligation, beginning of year	\$ 1,991,273	\$ 1,937,309
Net periodic postretirement costs	65,109	82,007
Postretirement-related changes other than net periodic postretirement cost	376,661	(28,043)
Benefit obligation, end of year	\$ 2,433,043	\$ 1,991,273

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

9. POST RETIREMENT EMPLOYEE BENEFITS, continued:

	Year Ended December 31,	
	2020	2019
Net periodic postretirement cost, included in functional expenses:		
Service cost	\$ 3,846	\$ 2,825
Interest costs	61,263	79,182
Net periodic postretirement cost other than service cost	61,263	79,182
Net periodic postretirement costs	\$ 65,109	\$ 82,007

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,	
	2020	2019
Change in discount rate assumption	\$ 225,263	\$ 228,399
Change in other assumptions	162,190	(136,090)
Actuarial loss (gain)	77,475	(39,181)
Benefits paid	(88,267)	(81,171)
	\$ 376,661	\$ (28,043)

Assumptions:

	December 31,	
	2020	2019
Projected health care trend rate (Medical/Rx)	3.9%/7.0%	3.8%/5.9%
Ultimate trend rate (Medical/Rx)	3.9%/4.9%	3.8%/5.25%
Year ultimate trend rate is achieved	2028	2027
Discount rate	2.42%	3.15%



# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

9. POST RETIREMENT EMPLOYEE BENEFITS, continued:

The mortality basis was the Pri-2012 total dataset (generational projection using MP-2020-GFR and MR-2019-GFR for the years ended December 31, 2020 and 2019, respectively).

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

<u>Year Ending December 31,</u>	
2021	\$ 110,847
2022	110,532
2023	110,171
2024	108,247
2025	119,865
2026 through 2030	<u>578,558</u>
	<u>\$ 1,138,220</u>

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, 2020 and 2019, was \$434,502 and \$387,591, respectively.

11. PAYROLL PROTECTION PROGRAM LOAN:

During the year ended December 31, 2020, OBHC received a \$1,139,300 loan as part of the Paycheck Protection Program (PPP) from the US Small Business Administration (SBA) due to the coronavirus (COVID-19) pandemic. The loan is fully forgivable if OBHC meets certain spending and employment thresholds. OBHC intends to apply for forgiveness subsequent to year end. Any portion not forgiven will be due April 2022, at a fixed interest of 1%.

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2020 and 2019

### 12. 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 Oklahoma Baptists, WatersEdge, Oklahoma Baptist University, and Baptist Village Communities of Oklahoma, Inc. As of December 31, 2020 and 2019, OBHC had amounts due from related parties of approximately \$114,213 and \$110,500, respectively. As of December 31, 2020 and 2019, OBHC had amounts due to related parties of approximately \$11,800 and \$21,200, respectively.

As discussed in Note 2, WatersEdge holds and manages investments and beneficial interests in funds held by others on behalf of OBHC. As of December 31, 2020 and 2019, investments and beneficial interests in funds held by WatersEdge on behalf of OBHC were approximately \$84,000,000 and \$81,000,000, respectively. In relation to holding and managing OBHC's investments, WatersEdge charged total fees of approximately \$712,000 and \$708,000, for the years ended December 31, 2020 and 2019, respectively.

OBHC made rent payments to Oklahoma Baptists for office space totaling \$183,540 and \$122,640 for the years ended December 31, 2020 and 2019, respectively.

Additionally, OBHC receives contributions from related parties, including committee members, strategic advisors, members of management, and other related parties. These amounts were approximately \$800,000 and \$212,000, for the years ended December 30, 2020 and 2019, respectively.

### 13. RISKS AND UNCERTAINTIES:

During the year ended December 31, 2020, the World Health Organization declared the outbreak of the COVID-19 a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of OBHC for future periods. Management is carefully monitoring the situation.

### 14. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through May 11, 2021, which represents the date the financial statements were available to be issued.