



OKLAHOMA BAPTIST HOMES  
FOR CHILDREN, INC.

Financial Statements  
With Independent Auditors' Report

December 31, 2022 and 2021

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

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## INDEPENDENT AUDITORS' REPORT

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

### ***Opinion***

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, 2022 and 2021, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Oklahoma Baptist Homes for Children, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Oklahoma Baptist Homes for Children, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Oklahoma Baptist Homes for Children, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Oklahoma Baptist Homes for Children, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

*Capin Crouse LLP*

Centennial, Colorado  
May 23, 2023

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Statements of Financial Position

	December 31,	
	2022	2021
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 1,053,996	\$ 2,694,032
Accounts receivable—Oklahoma Baptists and other	167,887	146,294
Investments	24,612,922	22,484,913
Investment restricted for construction projects	2,469,727	3,826,157
Prepaid expenses and other	323,351	218,267
	28,627,883	29,369,663
Deposit and other	53,796	58,010
Fixed assets—net	14,918,659	12,502,206
Beneficial interest in funds held by others	76,139,434	76,533,068
	\$ 119,739,772	\$ 118,462,947
<b>Total Assets</b>	<b>\$ 119,739,772</b>	<b>\$ 118,462,947</b>
<b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,132,892	\$ 702,991
Post-retirement benefits liability	2,213,074	2,934,707
Total liabilities	3,345,966	3,637,698
Net assets:		
Net assets without donor restrictions	23,480,791	24,249,397
Net assets with donor restrictions:		
Restricted by purpose or time	18,236,413	15,797,376
Restricted in perpetuity	74,676,602	74,778,476
	92,913,015	90,575,852
Total net assets	116,393,806	114,825,249
<b>Total Liabilities and Net Assets</b>	<b>\$ 119,739,772</b>	<b>\$ 118,462,947</b>

See notes to financial statements

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Statements of Activities

	Year Ended December 31,	
	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating Support, Revenue, and Other Additions:		
Contributions:		
Cooperative Program contributions	\$ 648,592	\$ 649,623
Gift-in-kind contributions	765,637	630,233
Other contributions	5,639,452	5,350,344
	7,053,681	6,630,200
Revenue:		
Investment income—distributions appropriated	3,782,755	2,997,242
Gain on extinguishment of debt	-	1,139,300
Other income	339,136	634,792
	4,121,891	4,771,334
Total Operating Support and Revenue	11,175,572	11,401,534
Net assets released from restriction:		
Purpose and time restrictions	2,047,452	2,115,784
Total Operating Support, Revenue and Other Additions	13,223,024	13,517,318
Operating expenses:		
Program expenses:		
Children’s programs	8,242,574	7,091,493
Hope pregnancy centers	2,415,247	2,190,421
Supporting activities:		
Home office	1,261,139	1,262,488
Fund-raising	2,594,682	2,206,471
Total Operating Expenses	14,513,642	12,750,873
Change in Net Assets from Operations	(1,290,618)	766,445
Non-Operating Change in Net Assets Without Donor Restrictions:		
Other components of net periodic postretirement cost	(80,433)	(78,777)
Postretirement-related changes other than net periodic postretirement costs	856,560	(348,654)
Capital contributions	394,942	705,725
Investment income (loss)	(649,057)	2,967,754
Change in Net Assets from Non-Operating Activities	522,012	3,246,048
Change in Net Assets Without Donor Restrictions	(768,606)	4,012,493

(continued)

See notes to financial statements

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Statements of Activities

(continued)

	Year Ended December 31,	
	2022	2021
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS, continued:		
Operating Support, Revenue, and Other Additions	13,223,024	13,517,318
Operating Expenses	(14,513,642)	(12,750,873)
Change in Net Assets from Operations	(1,290,618)	766,445
Change in Net Assets from Non-Operating Activities	522,012	3,246,048
Change in Net Assets Without Donor Restrictions	(768,606)	4,012,493
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	3,654,565	2,864,814
Capital contributions	433,592	1,093,635
Contributions to beneficial trust	859,853	935,085
Gift-in-kind contributions	112,500	-
Total Contributions	5,060,510	4,893,534
Investment income	577,592	89,743
Change in value of beneficial interests	(1,253,487)	10,211,791
Net assets released from restrictions:		
Purpose and time restrictions	(2,047,452)	(2,115,784)
Change in Net Assets with Donor Restrictions	2,337,163	13,079,284
Change in Net Assets	1,568,557	17,091,777
Net Assets, Beginning of Year	114,825,249	97,733,472
Net Assets, End of Year	\$ 116,393,806	\$ 114,825,249

See notes to financial statements

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Statements of Cash Flows

	Year Ended December 31,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,568,557	\$ 17,091,777
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,236,815	1,159,684
Net realized and unrealized losses (gains) on investments	71,465	(3,057,497)
Gain on sale of fixed assets and assets held for sale	(109,620)	(271,054)
Gain on extinguishment of debt	-	(1,139,300)
Contributions restricted for long-term purposes	(1,688,387)	(2,734,445)
Change in value of beneficial interest in funds held by others	1,253,487	(10,211,791)
Changes in operating assets and liabilities:		
Receivables, deposits, and other assets	(122,463)	(17,970)
Accounts payable, accrued liabilities, and post-retirement benefits liability	(680,792)	590,186
Net Cash Provided by Operating Activities	1,529,062	1,409,590
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	(3,379,485)	(1,562,997)
Proceeds on sale of fixed assets and assets held for sale	224,897	840,975
Purchases of investments	(8,782,302)	(8,442,128)
Proceeds from sale of investments	7,079,405	4,542,473
Net Cash Used by Investing Activities	(4,857,485)	(4,621,677)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds for contributions restricted for:		
Capital projects	828,534	1,799,360
Beneficial interest in funds held by others	859,853	935,085
Net Cash Provided by Financing Activities	1,688,387	2,734,445
Change in Cash and Cash Equivalents	(1,640,036)	(477,642)
Cash and Cash Equivalents, Beginning of Year	2,694,032	3,171,674
Cash and Cash Equivalents, End of Year	\$ 1,053,996	\$ 2,694,032
<b>NON-CASH TRANSACTION:</b>		
Fixed assets financed through accounts payable	\$ 389,060	\$ -

See notes to financial statements



# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

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 seven 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, 2022 and 2021, the cash accounts maintained exceeded federally insured limits by approximately \$260,000 and \$2,152,000, respectively.

### INVESTMENTS RESTRICTED FOR CONSTRUCTION PROJECTS

Investments restricted for construction projects consists of amounts received from donors but not yet spent for construction projects. As accounting standards specify, restricted net assets should only be released when the related asset is placed into service. Investments restricted for construction projects consist of:

	December 31,	
	2022	2021
Net assets restricted for construction projects	\$ 5,530,869	\$ 3,826,157
Less expenditures not yet placed into service	(3,061,142)	-
	<u>\$ 2,469,727</u>	<u>\$ 3,826,157</u>

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### INVESTMENTS AND INVESTMENT INCOME

Investments (including investments restricted for construction projects) in pooled equity securities, fixed income instruments, the WatersEdge spending policy pool, and church building loans are carried at net asset value. Mineral rights and pooled investments are carried at estimated fair value. Gains and losses on 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.

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 non-endowment investments for which the principal and income is directed by OBHC, including donor funds invested until expended for the specified purpose. These non-endowment investments held by WatersEdge are labeled as custodial funds in Note 3. Other investments are bond mutual funds held for use in the 403(b) retirement plan. These investments are held by GuideStone Financial Resources of the Southern Baptist Convention and are labeled as Other in Note 3.

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.

#### 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	6-10 years
Vehicles	3 years
Buildings and leasehold improvements	5-40 years

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

OBHC is the beneficiary of certain irrevocable trusts held and administered by 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. Total quarterly distributions, appropriated and non-appropriated, received for Q1-Q4 2022, were approximately \$1,009,000, \$989,000, \$1,049,000, and \$1,065,000, respectively. Total quarterly distributions, appropriated and non-appropriated, received for Q1-Q4 2021, were approximately \$798,000, \$828,000, \$826,000, and \$847,000, 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. Full-time employees hired after September 27, 1994 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, 2022 and 2021

### 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 resources invested in fixed assets.

*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 31st 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 based on average current prices on publicly available websites or based on the value of services provided if they were to be purchased. Donated materials were approximately \$499,000 and \$442,000, for the years ended December 31, 2022 and 2021, respectively. Donated services were approximately \$266,000 and \$188,000, for the years ended December 31, 2022 and 2021, respectively. Donated land was received during the year ended December 31, 2022 and valued at \$112,500 using an appraisal and other factors. Contributed assets are used in OBHC's programs and are typically not donor restricted. However, during the year ended December 31, 2022, the land received is restricted in perpetuity as the property can never be sold.

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### SUPPORT AND REVENUE, continued

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.

#### 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 \$2,000,000 per occurrence and a self-insured retention of \$425,000 per occurrence.

#### ADVERTISING COSTS

All advertising costs are expensed as incurred. Advertising costs were approximately \$134,000 for both the years ended December 31, 2022 and 2021.

#### 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.

#### RECLASSIFICATIONS

Certain financial statements and footnote information from the prior year financial statements has been reclassified to conform with current year presentation format.

#### RECENTLY ADOPTED ACCOUNTING STANDARDS

During the year ended December 31, 2022, OBHC adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ADOPTED ACCOUNTING STANDARDS, continued

In 2016, Financial Accounting Standards Board issued ASU No. 2016-02, *Leases* (Topic 842 of the ASC). The amendments in this update require organizations that lease assets to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by the leases. The amendments are effective for fiscal years beginning after December 15, 2021. OBHC adopted this update for the year ended December 31, 2022. Some of OBHC's contracts contain the right to control the use of property or assets and are therefore considered leases. OBHC elected to adopt the transition relief provisions from ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements* and recorded the impact of adoption as of January 1, 2022, without restating prior-year amounts. OBHC also elected the practical expedient to not separate lease and non-lease components and to expense short-term leases. As of December 31, 2022 an operating right-of-use asset of \$70,907 and lease obligation liability of \$71,851 has been recorded on the statements of financial position within prepaid expenses and other and accounts payable and accrued liabilities, respectively. Due to immateriality additional disclosure regarding these leases have been omitted from the financial statements.

3. INVESTMENTS:

Investments consist of:

	December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions (Purpose/Time)	Total
Custodial funds held by WatersEdge	\$ 19,574,501	\$ 7,508,148	\$ 27,082,649
Less investments restricted for long-term purposes	-	(2,469,727)	(2,469,727)
	\$ 19,574,501	\$ 5,038,421	\$ 24,612,922
	December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions (Purpose/Time)	Total
Custodial funds held by WatersEdge	\$ 18,549,389	\$ 7,722,417	\$ 26,271,806
Other	39,264	-	39,264
	18,588,653	7,722,417	26,311,070
Less investments restricted for long-term purposes	-	(3,826,157)	(3,826,157)
	\$ 18,588,653	\$ 3,896,260	\$ 22,484,913

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

4. FIXED ASSETS–NET:

Fixed assets–net consist of:

	December 31,	
	2022	2021
Land	\$ 1,719,115	\$ 1,810,277
Land restricted in perpetuity	112,500	-
Buildings and improvements	30,232,631	29,252,730
Equipment	2,128,732	2,108,552
Vehicles	2,199,015	1,976,503
Furniture and fixtures	121,602	121,602
	36,513,595	35,269,664
Less accumulated depreciation	(24,656,078)	(23,752,443)
	11,857,517	11,517,221
Construction in progress	3,061,142	984,985
	\$ 14,918,659	\$ 12,502,206

5. NET ASSETS:

Net assets without donor restrictions consist of:

	December 31,	
	2022	2021
Operating	\$ 8,674,632	\$ 11,747,191
Equity in fixed assets–net (less land restricted in perpetuity)	14,806,159	12,502,206
	\$ 23,480,791	\$ 24,249,397

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

5. NET ASSETS, continued:

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

	December 31,	
	2022	2021
Subject to expenditure for specified purpose:		
Construction projects	\$ 5,530,869	\$ 3,826,157
Boys Ranch Town	3,497,271	3,840,578
Baptist Children’s Home, Oklahoma City	3,205,328	3,299,725
Hope Pregnancy Centers	1,425,833	959,836
Scholarships	834,531	377,521
Baptist Children’s Home, Owasso	763,273	737,833
Baptist Home for Girls	759,587	505,112
Women of compassion and style show	155,115	345,613
Home office, development, and other	489,274	150,410
	16,661,081	14,042,785
Subject to the passage of time:		
Beneficial interest in funds held by others	1,575,332	1,754,591
Subject to restriction in perpetuity:		
Beneficial interest in funds held by others:		
Children’s programs	72,100,734	72,375,361
Scholarships	1,748,676	1,615,101
Buildings, cottages, and maintenance	714,692	788,014
Land	112,500	-
	74,676,602	74,778,476
	\$ 92,913,015	\$ 90,575,852



# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

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,	
	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 1,053,996	\$ 2,694,032
Accounts receivable—Oklahoma Baptists and other	167,887	146,294
Investments	24,612,922	22,484,913
Investment restricted for construction projects	2,469,727	3,826,157
Beneficial interest in funds held by others	76,139,434	76,533,068
Financial assets, at year-end	<u>104,443,966</u>	<u>105,684,464</u>
Less those unavailable for general expenditures within one year, due to:		
Assets restricted by donor with purpose restrictions not expected to be used within one year	(2,222,234)	(1,564,537)
Investments restricted by donor with purpose restrictions	(7,508,148)	(6,947,017)
Beneficial interest in funds held by others	<u>(76,139,434)</u>	<u>(76,533,068)</u>
	<u>(85,869,816)</u>	<u>(85,044,622)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 18,574,150</u>	<u>\$ 20,639,842</u>

Management has an unofficial and unwritten policy of maintaining the WatersEdge custodial accounts at a minimum of 6 months' worth of budgeted expenses. OBHC will receive approximately \$3,600,000 of distributions during the year ended December 31, 2023 that can be used at the discretion of the board of trustees.

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

### 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, 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, 2022 and 2021

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 investments*

The pooled investments held by WatersEdge in their 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.

*Low-duration bonds*

The low-duration bonds held by WatersEdge are primarily invested in corporate bonds with duration between one to three years and are calculated based on the underlying investments.

*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 life expectancy using mortality tables as calculated by an actuary.

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

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, 2022:</u>				
Assets:				
Investments:				
Pooled investments	\$ 14,931,912	\$ -	\$ 14,931,912	\$ -
Low-duration bonds	804,626	-	804,626	-
Mineral interests	592,197	-	-	592,197
	16,328,735	\$ -	\$ 15,736,538	\$ 592,197
Reconciling items at cost:				
Cash and cash equivalents	10,753,914			
Total Investments	\$ 27,082,649			
Beneficial interest in funds held by others				
	\$ 76,139,434	\$ -	\$ 76,139,434	\$ -
Liabilities:				
Post-retirement benefits liability	\$ 2,213,074	\$ -	\$ 2,213,074	\$ -

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

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, 2021:</u>				
Assets:				
Investments:				
Pooled investments	\$ 16,320,625	\$ -	\$ 16,320,625	\$ -
Bond mutual fund	39,264	39,264	-	-
Mineral interests	294,437	-	-	294,437
	16,654,326	\$ 39,264	\$ 16,320,625	\$ 294,437
Reconciling items at cost:				
Cash and cash equivalents	9,656,744			
Total Investments	\$ 26,311,070			
Beneficial interest in funds held by others				
	\$ 76,533,068	\$ -	\$ 76,533,068	\$ -
Liabilities:				
Post-retirement benefits liability	\$ 2,934,707	\$ -	\$ 2,934,707	\$ -

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

	Year Ended December 31,	
	2022	2021
Beginning balance	\$ 294,437	\$ 223,850
Investment gains	297,760	70,587
Ending balance	\$ 592,197	\$ 294,437

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

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 expenses 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 \$80,433 and \$78,777, for the years ending December 31, 2022 and 2021, respectively.

Expenses of OBHC are allocated to functional classifications as follows:

	Year Ended December 31, 2022				
	Program Activities		Supporting Activities		Total
	Children's Programs	Hope Pregnancy Centers	Home Office	Fundraising	
Salaries, wages, and benefits	\$ 3,599,644	\$ 1,232,038	\$ 600,173	\$ 1,661,943	\$ 7,093,798
Facilities and maintenance	2,651,316	240,951	44,873	75,897	3,013,037
Food, accommodations and supplies	797,251	243,306	97,313	618,999	1,756,869
Depreciation	917,914	212,984	50,976	54,941	1,236,815
Office and professional fees	76,336	444,320	531,353	163,840	1,215,849
Travel and other	200,113	41,648	16,884	19,062	277,707
	8,242,574	2,415,247	1,341,572	2,594,682	14,594,075
Less nonoperating expense	-	-	(80,433)	-	(80,433)
Total Operating Expenses	\$ 8,242,574	\$ 2,415,247	\$ 1,261,139	\$ 2,594,682	\$ 14,513,642
Change in total operating expenses from prior year	\$ 1,151,081	\$ 224,826	\$ (1,349)	\$ 388,211	\$ 1,762,769
% change in total operating expenses from prior year	16.23%	10.26%	-0.11%	17.59%	13.82%

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

8. EXPENSES INCURRED, continued:

Expenses of OBHC are allocated to functional classifications as follows:

	Year Ended December 31, 2021				
	Program Activities		Supporting Activities		Total
	Children's Programs	Hope Pregnancy Centers	Home Office	Fundraising	
Salaries, wages, and benefits	\$ 3,429,250	\$ 1,064,874	\$ 565,101	\$ 1,756,441	\$ 6,815,666
Facilities and maintenance	1,686,661	269,104	44,834	70,271	2,070,870
Food, accommodations and supplies	910,515	404,667	47,529	203,175	1,565,886
Depreciation	876,483	212,299	35,272	35,630	1,159,684
Office and professional fees	88,614	213,594	635,963	112,732	1,050,903
Travel and other	99,970	25,883	12,566	28,222	166,641
	7,091,493	2,190,421	1,341,265	2,206,471	12,829,650
Less nonoperating expense	-	-	(78,777)	-	(78,777)
Total Operating Expenses	\$ 7,091,493	\$ 2,190,421	\$ 1,262,488	\$ 2,206,471	\$ 12,750,873

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

9. POST-RETIREMENT EMPLOYEE BENEFITS:

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

	December 31, 2022		
	Health Care	Life Insurance	Total
Inactive retired participants	\$ 1,906,804	\$ 26,136	\$ 1,932,940
Active fully eligible participants	25,155	-	25,155
Active other participants	254,979	-	254,979
	\$ 2,186,938	\$ 26,136	\$ 2,213,074
	December 31, 2021		
	Health Care	Life Insurance	Total
Inactive retired participants	\$ 2,298,343	\$ 30,481	\$ 2,328,824
Active fully eligible participants	208,776	-	208,776
Active other participants	397,107	-	397,107
	\$ 2,904,226	\$ 30,481	\$ 2,934,707

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,	
	2022	2021
Benefit obligation, beginning of year	\$ 2,934,707	\$ 2,433,043
Net periodic post-retirement costs	134,927	153,010
Post-retirement-related changes other than net periodic postretirement cost	(856,560)	348,654
Benefit obligation, end of year	\$ 2,213,074	\$ 2,934,707



# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

9. POST-RETIREMENT EMPLOYEE BENEFITS, continued:

	Year Ended December 31,	
	2022	2021
Net periodic post-retirement cost, included in functional expenses:		
Service cost	\$ 54,494	\$ 74,233
Net periodic post-retirement cost other than service cost:		
Interest costs	80,433	78,777
Net periodic post-retirement costs	\$ 134,927	\$ 153,010

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

Post-retirement-related changes other than net periodic post-retirement cost, included in nonoperating activities, are as follows:

	Year Ended December 31,	
	2022	2021
Change in discount rate assumption	\$ (725,275)	\$ (114,381)
Change in other assumptions	111,063	6,890
Recognition of additional health care benefits	-	771,290
Actuarial gain	(120,045)	(197,349)
Benefits paid	(122,303)	(117,796)
	\$ (856,560)	\$ 348,654

Assumptions:

	December 31,	
	2022	2021
Projected health care trend rate (Medical/Rx)	4.3%/7.5%	3.8%/6.5%
Ultimate trend rate (Medical/Rx)	4.3%/4.87%	3.8%/4.9%
Year ultimate trend rate is achieved	2030	2029
Discount rate	5.22%	2.75%

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

9. POST-RETIREMENT EMPLOYEE BENEFITS, continued:

The mortality basis was the Pri-2012 total dataset (generational projection using MP-2021-GFR for the years ended December 31, 2022 and 2021).

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

<u>Year Ending December 31,</u>	
2023	\$ 129,704
2024	127,453
2025	143,410
2026	138,659
2027	144,733
2028 through 2032	<u>820,687</u>
	<u>\$ 1,504,646</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, 2022 and 2021, was \$403,062 and \$392,801, respectively.

11. PAYCHECK 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 due to the coronavirus (COVID-19) pandemic. The loan was fully forgiven during the year ended December 31, 2021 and as a result was recognized as a gain on extinguishment of debt on the statement of activities.

12. RELATED PARTIES:

OBHC is affiliated with all organizations whose directors or trustees are elected by the participating churches of the Oklahoma Baptists 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, 2022 and 2021, OBHC had amounts due from related parties of approximately \$142,000 and \$113,000, respectively.

# OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

## Notes to Financial Statements

December 31, 2022 and 2021

12. RELATED PARTIES, continued:

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, 2022 and 2021, investments and beneficial interests in funds held by WatersEdge on behalf of OBHC were approximately \$102,000,000 and \$101,000,000, respectively. In relation to holding and managing OBHC's investments, WatersEdge charged total fees of approximately \$828,000 and \$841,000, for the years ended December 31, 2022 and 2021, respectively.

OBHC made rent payments to Oklahoma Baptists for office space totaling \$183,540 for both the years ended December 31, 2022 and 2021.

Additionally, OBHC receives contributions from related parties, including committee members, strategic advisors, members of management, and other related parties. These amounts were approximately \$368,000 and \$195,000, for the years ended December 30, 2022 and 2021, respectively.

13. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through May 23, 2023, which represents the date the financial statements were available to be issued.