



FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2015 and 2014

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, 2015 and 2014, 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, 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.

Prior Period Adjustment

As described in Note 12 to the financial statements, OBHC identified adjustments pertaining to amounts previously reported as investments. Accordingly, the 2014 financial statements now presented have been restated and opening net asset balances as of January 1, 2014, have been adjusted to correct these errors. Our opinion is not modified with respect to that matter.

Capin Crouse LLP

Colorado Springs, Colorado
May 5, 2016

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Statements of Financial Position

	December 31,	
	2015	2014, restated
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,804,961	\$ 2,687,836
Accounts receivable–BGCO and other	330,243	89,342
Unconditional promises to give	351,956	42,505
Pledge receivable–BGCO, net of unamortized discount	147,731	140,275
Prepaid expenses	33,752	32,777
	<u>2,668,643</u>	<u>2,992,735</u>
Investments	8,904,840	8,424,240
Fixed assets–net	12,296,559	12,705,525
Pledge receivable–BGCO, net of current portion and unamortized discount	887,911	1,035,644
Deposit and other	90,190	83,538
Beneficial interest in funds held by others	<u>60,094,719</u>	<u>61,467,589</u>
Total Assets	<u>\$ 84,942,862</u>	<u>\$ 86,709,271</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 718,459	\$ 637,551
Workers compensation liability	6,479	51,611
	<u>724,938</u>	<u>689,162</u>
Post-retirement benefits liability	1,993,796	2,166,128
	<u>2,718,734</u>	<u>2,855,290</u>
Net assets:		
Unrestricted	19,162,292	20,320,733
Temporarily restricted	9,732,693	8,954,370
Permanently restricted	53,329,143	54,578,878
Total net assets	<u>82,224,128</u>	<u>83,853,981</u>
Total Liabilities and Net Assets	<u>\$ 84,942,862</u>	<u>\$ 86,709,271</u>

See notes to financial statements

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Statements of Activities

	Year Ended December 31,							
	2015				2014, restated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING SUPPORT AND REVENUE:								
Cooperative program contributions	\$ 669,151	\$ -	\$ -	\$ 669,151	\$ 658,476	\$ -	\$ -	\$ 658,476
Other contributions	5,307,486	1,069,208	-	6,376,694	4,412,251	945,417	-	5,357,668
Investment income - annual distribution	4,013,210	-	-	4,013,210	3,474,189	-	-	3,474,189
Other income	321,355	-	-	321,355	519,347	-	-	519,347
Reclassifications:								
Net assets released from restrictions	1,253,555	(1,253,555)	-	-	1,268,422	(1,268,422)	-	-
Total Operating Support and Revenue	11,564,757	(184,347)	-	11,380,410	10,332,685	(323,005)	-	10,009,680
OPERATING EXPENSES:								
Program expenses:								
Children's programs	7,596,202	-	-	7,596,202	7,649,946	-	-	7,649,946
Hope pregnancy centers	1,421,923	-	-	1,421,923	1,286,339	-	-	1,286,339
Supporting activities:								
Home office	2,171,634	-	-	2,171,634	1,894,939	-	-	1,894,939
Fund-raising	2,151,610	-	-	2,151,610	1,745,250	-	-	1,745,250
Total Operating Expenses	13,341,369	-	-	13,341,369	12,576,474	-	-	12,576,474
Change in Net Assets from Operating Activities	(1,776,612)	(184,347)	-	(1,960,959)	(2,243,789)	(323,005)	-	(2,566,794)

(continued)

See notes to financial statements

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Statements of Activities

(continued)

	Year Ended December 31,							
	2015				2014, restated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NON-OPERATING ACTIVITIES:								
Income on investments	2,559	-	-	2,559	858,014	-	-	858,014
Capital contributions	346,541	1,085,805	-	1,432,346	1,092,354	273,343	-	1,365,697
Contributions of beneficial interests	-	27,181	651,098	678,279	-	-	3,369,769	3,369,769
Change in value of beneficial interests	-	(150,316)	(1,900,833)	(2,051,149)	-	191,592	1,144,986	1,336,578
Gain on insurance settlement	3,518	-	-	3,518	105,000	-	-	105,000
Retirement changes other than net periodic benefit cost	265,553	-	-	265,553	(237,319)	-	-	(237,319)
Change in Net Assets from Non-Operating Activities	618,171	962,670	(1,249,735)	331,106	1,818,049	464,935	4,514,755	6,797,739
Change in Net Assets	(1,158,441)	778,323	(1,249,735)	(1,629,853)	(425,740)	141,930	4,514,755	4,230,945
Net Assets, Beginning of Year								
As previously reported	20,320,733	8,954,370	54,578,878	83,853,981	20,695,793	20,417,451	38,509,792	79,623,036
Prior period adjustment (Note 12)	-	-	-	-	50,680	(11,605,011)	11,554,331	-
As restated	20,320,733	8,954,370	54,578,878	83,853,981	20,746,473	8,812,440	50,064,123	79,623,036
Net Assets, End of Year	\$ 19,162,292	\$ 9,732,693	\$ 53,329,143	\$ 82,224,128	\$ 20,320,733	\$ 8,954,370	\$ 54,578,878	\$ 83,853,981

See notes to financial statements

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2015	2014, restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,629,853)	\$ 4,230,945
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,287,586	1,136,114
Net realized and unrealized gains on investments	(4,015,769)	(4,097,269)
Income from amortization of discount on pledges receivable	(57,723)	(64,804)
(Gain) loss on sale of fixed assets	24,042	(21,676)
Donated fixed assets	-	(234,221)
Contributions restricted for long-term purposes	(2,110,625)	(4,735,466)
Change in value of beneficial interest in funds held by others	1,372,870	(1,336,578)
Changes in operating assets and liabilities:		
Receivables, deposits, and other assets	(557,979)	97,155
Accounts payable, accrued liabilities, and post-retirement benefits liability	(136,556)	80,687
Net Cash Used by Operating Activities	<u>(5,824,007)</u>	<u>(4,945,113)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(949,712)	(3,478,687)
Proceeds on sale of fixed assets	47,050	41,618
Payments on long-term pledge receivable	198,000	198,000
Net change in investments	<u>3,535,169</u>	<u>2,520,991</u>
Net Cash Used by Investing Activities	<u>2,830,507</u>	<u>(718,078)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds for contributions restricted for:		
Long-term purposes	1,432,346	1,365,697
Contributions of beneficial interest in funds held by others	<u>678,279</u>	<u>3,369,769</u>
Net Cash Provided by Financing Activities	<u>2,110,625</u>	<u>4,735,466</u>
Change in Cash and Cash Equivalents	(882,875)	(927,725)
Cash and Cash Equivalents, Beginning of Year	<u>2,687,836</u>	<u>3,615,561</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,804,961</u></u>	<u><u>\$ 2,687,836</u></u>
SUPPLEMENTAL DATA:		
Contributed services and gifts-in-kind received	<u>\$ 664,599</u>	<u>\$ 677,382</u>
Construction in progress held in accounts payable at December 31	<u><u>\$ -</u></u>	<u><u>\$ 15,161</u></u>

See notes to financial statements

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

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 provide care for children and to provide preventive and redemptive services for children, parents, and families. With donated funds, OBHC operates four homes or other living facilities for children in need and four hope pregnancy centers. Prior to 1994, OBHC was a division of the Baptist General Convention of Oklahoma, Inc. (BGCO).

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 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. These accounts, at times may exceed federally insured limits. 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

OBHC records its pledge receivable at net realizable value. The pledge was made during the fiscal year ending December 31, 2004. Management considers the entire balance collectible. Therefore, no allowance for uncollectible pledges has been made.

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 unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law. See Note 6 for fair value measurements and disclosures.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS AND INVESTMENT INCOME, continued

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 not donor restricted.

Loan–Non-endowment funds for which the principal and income may be used for providing loans to OBHC alumni.

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.

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. 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 permanently restricted contribution at the date the trust is established. OBHC's estimate of fair value is based on fair value information received from the trustee, BFO. The assets consist of 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.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS, continued

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. The fair value of these trusts are recorded at the date the trust is established as an asset and a temporarily restricted contribution unless the donor restricts the assets to be held in perpetuity. 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.

INCOME TAXES

OBHC is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based upon the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of December 31, 2015, OBHC had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

OBHC is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2012.

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:

Unrestricted net assets 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.

Temporarily restricted net assets are those (a) resources currently available for use but expendable only for purposes specified by the donor and (b) resources held by BFO that are not permanently restricted but which are subject to the distribution policy of BFO.

Permanently restricted net assets are those resources for which the principal is to remain intact in perpetuity and over which the governing board has no discretionary control to use in carrying on the operations of OBHC.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE

Contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair values. 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 unrestricted assets, temporarily restricted assets, and permanently restricted assets.

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 unrestricted. When a donor restriction expires on gifts classified as temporarily restricted, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. All contributed assets are reflected at the fair market value at the date of contribution.

BFO holds certain funds under gift annuity contracts and other irrevocable trust agreements for which the remainder interest is held for the benefit of OBHC. OBHC is entitled to these remainder interests, which qualify as unconditional promises to give, and are recorded at their discounted present value utilizing a five percent rate.

OBHC's cooperative program distributions are budgeted annually at the discretion of BGCO and are recognized when earned. 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.

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 \$123,000 and \$94,000 for the years ended December 31, 2015 and 2014, respectively.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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 annual distribution as non-operating. All remaining activities are general operations of OBHC.

RECLASSIFICATIONS

Certain amounts from the prior year have been reclassified to conform with current year presentation.

NEW ACCOUNTING PRONOUNCEMENTS

ASU 2015-07 updates the *Fair Value Measurement* topic of the Accounting Standards Codification (ASC). The primary change resulting from ASU 2015-07 is updated disclosure requirements for investments valued at net asset value, which removes the requirement to categorize these investments within the fair value hierarchy. ASU 2015-07 is effective for fiscal years after December 15, 2016, with early adoption permitted. OBHC has elected to adopt ASU 2015-07 for the year ended December 31, 2015. The financial statements and disclosures reflect these updates.

3. INVESTMENTS:

		December 31, 2015		
		Unrestricted	Temporarily Restricted	Permanently Restricted
				Total
Custodial funds	\$	8,842,404	\$ 9,383	\$ -
Other		53,053	-	-
	\$	<u>8,895,457</u>	<u>\$ 9,383</u>	<u>\$ -</u>
				<u>\$ 8,904,840</u>
		December 31, 2014, restated		
		Unrestricted	Temporarily Restricted	Permanently Restricted
				Total
Custodial funds	\$	8,359,937	\$ 9,602	\$ -
Other		54,701	-	-
	\$	<u>8,414,638</u>	<u>\$ 9,602</u>	<u>\$ -</u>
				<u>\$ 8,424,240</u>

The costs of the above investments were \$8,379,496 and \$7,737,078 as of December 31, 2015 and 2014, respectively.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

3. INVESTMENTS, continued:

Following is the composition of investment return:

	Year Ended December 31,	
	2015	2014, restated
Dividends	\$ 231,367	\$ 177,823
Realized losses	(145,169)	(149,848)
Unrealized gains	236,989	743,198
Mineral income	24,441	55,226
Interest and other income	4,632	431,129
Distributions from beneficial interest in funds held by others	3,663,509	3,074,675
	<u>\$ 4,015,769</u>	<u>\$ 4,332,203</u>

4. FIXED ASSETS—NET:

Fixed assets—net consist of:

	December 31,	
	2015	2014
Land	\$ 1,642,707	\$ 1,642,707
Furniture and fixtures	191,520	191,520
Equipment	1,723,361	1,491,527
Vehicles	1,887,344	1,850,193
Buildings and leasehold improvements	25,416,155	24,544,093
	<u>30,861,087</u>	<u>29,720,040</u>
Less accumulated depreciation	(18,881,236)	(18,217,344)
	<u>11,979,851</u>	<u>11,502,696</u>
Construction in progress	316,708	1,202,829
	<u>\$ 12,296,559</u>	<u>\$ 12,705,525</u>

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

5. NET ASSETS:

Unrestricted net assets consist of:

	December 31,	
	2015	2014, restated
Operating	\$ 4,514,880	\$ 5,102,674
Equity in fixed assets-net	12,296,559	12,705,525
Equity in post retirement benefit obligations	1,993,796	2,166,128
Equity in separation from service benefits	357,057	346,406
	<u>\$ 19,162,292</u>	<u>\$ 20,320,733</u>

Temporarily restricted net assets are available for the following purposes:

	December 31,	
	2015	2014, restated
Children's programs	\$ 5,360,892	\$ 5,464,212
Scholarships	1,320,126	1,376,955
Construction projects	1,468,524	694,441
Boys Ranch Town	409,436	346,633
Hope Pregnancy Centers and Aftercare	290,583	286,206
Baptist Children's Home, Oklahoma City	176,996	226,076
Baptist Home for Girls	228,733	206,140
Baptist Children's Home, Owasso	239,571	184,479
Home office and development	217,258	128,099
Banquets	20,574	41,129
	<u>\$ 9,732,693</u>	<u>\$ 8,954,370</u>

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

5. NET ASSETS, continued:

Permanently restricted net assets are restricted to the following:

	December 31,	
	2015	2014, restated
Children's programs	\$ 52,044,749	\$ 53,256,405
Scholarships	1,008,687	1,039,538
Buildings, cottages, and maintenance	275,707	282,935
	<u>\$ 53,329,143</u>	<u>\$ 54,578,878</u>

6. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES:

OBHC uses the fair valuation methodologies of BFO. BFO adopted the new provisions of the *Fair Value Measurements and Disclosure* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) effective January 1, 2008 and ASU 2015-07 effective December 31, 2015.

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.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

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

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.

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 consist of the following:

Pooled domestic equities, international equities, and fixed income instruments

The fair values are based on quoted market prices of these investments, however, OBHC's interest represents an interest in pooled funds held by its agent (BFO) valued at net asset value. There are no redemption restrictions or capital calls on the funds valued at net asset value.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

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

Pooled church building loan funds

The church building loan funds represents OBHC's interest in a pooled loan portfolio held by the BFO. The BFO carries loan funds at the total principal balance of these loans less an allowance for doubtful loans. Interest rates on loans are adjusted periodically based on terms of the loan. 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.

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 a multiple of four of the average annual production income less lease bonuses.

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, 2015 and 2014

6. 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, 2015.

		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)
December 31, 2015	Fair Value			
Assets:				
Investments:				
Mineral interests	\$ 145,576	\$ -	\$ -	\$ 145,576
Reconciling items at net asset value:				
Pooled domestic equities	15,381			
Pooled international equities	5,821			
Pooled fixed income instruments	31,850			
Pooled charitable spending policy	6,831,517			
Pooled church building loans	1,538,847			
	<u>8,423,416</u>			
Reconciling items at cost:				
Cash and cash equivalents	<u>335,848</u>			
Total investments	<u>\$ 8,904,840</u>			
Beneficial interest in funds held by others	<u>\$ 60,094,719</u>	<u>\$ -</u>	<u>\$ 60,094,719</u>	<u>\$ -</u>
Liabilities:				
Post-retirement benefits liability	<u>\$ 1,993,796</u>	<u>\$ -</u>	<u>\$ 1,993,796</u>	<u>\$ -</u>

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

6. 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, 2014.

		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)
December 31, 2014, restated	<u>Fair Value</u>			
Assets:				
Investments:				
Mineral interests	<u>\$ 144,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144,109</u>
Reconciling items at net asset value:				
Pooled domestic equities	15,966			
Pooled international equities	5,939			
Pooled fixed income instruments	32,796			
Pooled charitable spending policy	6,929,619			
Pooled church building loans	941,542			
	<u>7,925,862</u>			
Reconciling items at cost:				
Cash and cash equivalents	<u>354,269</u>			
Total investments	<u>\$ 8,424,240</u>			
Beneficial interest in funds held by others	<u>\$ 61,467,589</u>	<u>\$ -</u>	<u>\$ 61,467,589</u>	<u>\$ -</u>
Liabilities:				
Post-retirement benefits liability	<u>\$ 2,166,128</u>	<u>\$ -</u>	<u>\$ 2,166,128</u>	<u>\$ -</u>

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

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

The following tables provide further details of the Level 3 fair value measurements:

	Year Ended December 31,	
	2015	2014, restated
Beginning balance	\$ 144,109	\$ 95,704
Additional investments	24,441	55,226
Investment distributions	(1,038)	(2,475)
Investment losses	(21,936)	(4,346)
Ending balance	<u>\$ 145,576</u>	<u>\$ 144,109</u>

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

7. EXPENSES INCURRED:

Expenses of OBHC are allocated to their functional classifications as follows:

	Year Ended December 31, 2015				
	Program Activities		Supporting Activities		Total
	Children's Programs	Hope Pregnancy Centers	Home Office	Fundraising	
Salaries, wages, and benefits*	\$ 3,335,128	\$ 648,370	\$ 1,275,830	\$ 1,513,391	\$ 6,772,719
Ministry and program costs	1,541,847	361,559	-	419,515	2,322,921
Campus operations	1,487,262	164,898	-	-	1,652,160
Depreciation	1,015,680	115,277	79,734	76,895	1,287,586
Office operations	99,627	114,848	498,691	72,428	785,594
Travel	116,658	16,971	49,210	69,381	252,220
Professional fees	-	-	246,210	-	246,210
BFO administrative expenses	-	-	21,959	-	21,959
	<u>\$ 7,596,202</u>	<u>\$ 1,421,923</u>	<u>\$ 2,171,634</u>	<u>\$ 2,151,610</u>	<u>\$ 13,341,369</u>

	Year Ended December 31, 2014, restated				
	Program Activities		Supporting Activities		Total
	Children's Programs	Hope Pregnancy Centers	Home Office	Fundraising	
Salaries, wages, and benefits*	\$ 3,284,291	\$ 590,407	\$ 1,115,498	\$ 1,131,010	\$ 6,121,206
Ministry and program costs	1,569,610	289,594	-	337,626	2,196,830
Campus operations	1,599,854	197,002	-	-	1,796,856
Depreciation	944,077	95,585	49,170	47,283	1,136,115
Office operations	92,847	90,188	454,110	138,846	775,991
Travel	159,267	23,563	46,863	90,485	320,178
Professional fees	-	-	210,031	-	210,031
BFO administrative expenses	-	-	19,267	-	19,267
	<u>\$ 7,649,946</u>	<u>\$ 1,286,339</u>	<u>\$ 1,894,939</u>	<u>\$ 1,745,250</u>	<u>\$ 12,576,474</u>

* Home Office salaries, wages, and benefits includes the expense associated with the actuarial change of the post-retirement benefit obligation in the amount of \$93,221 and \$70,372 for the years ended December 31, 2015 and 2014, respectively.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

8. POST RETIREMENT EMPLOYEE BENEFITS

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.

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

	Benefit Obligation–2015		
	Health Care	Life Insurance	Total
Inactive retired participants	\$ 728,397	\$ 58,454	\$ 786,851
Active fully eligible participants	995,565	-	995,565
Active other participants	211,380	-	211,380
	<u>1,935,342</u>	<u>58,454</u>	<u>1,993,796</u>
Plan assets at fair value	<u>-</u>	<u>-</u>	<u>-</u>
Accumulated benefit obligation	<u>\$ 1,935,342</u>	<u>\$ 58,454</u>	<u>\$ 1,993,796</u>

	Benefit Obligation–2014		
	Health Care	Life Insurance	Total
Inactive retired participants	\$ 607,806	\$ 65,117	\$ 672,923
Active fully eligible participants	1,099,952	-	1,099,952
Active other participants	393,253	-	393,253
	<u>2,101,011</u>	<u>65,117</u>	<u>2,166,128</u>
Plan assets at fair value	<u>-</u>	<u>-</u>	<u>-</u>
Accumulated benefit obligation	<u>\$ 2,101,011</u>	<u>\$ 65,117</u>	<u>\$ 2,166,128</u>

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

8. POST RETIREMENT EMPLOYEE BENEFITS, continued:

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:

	December 31,	
	2015	2014
Benefit obligation at beginning of year	\$ 2,166,128	\$ 1,858,437
Cost:		
Service cost	11,876	11,195
Interest costs	81,345	86,211
Change in discount rate assumption	(87,713)	260,565
Change in other assumptions	(59,533)	49,933
Actuarial gain	(64,124)	(47,729)
	<u>(118,149)</u>	<u>360,175</u>
Benefits paid	<u>(54,183)</u>	<u>(52,484)</u>
	<u>\$ 1,993,796</u>	<u>\$ 2,166,128</u>
Assumptions:		
Projected health care trend rate (Medical/Rx)	3.2%/10.9%	8.00%
Ultimate trend rate (Medical/Rx)	3.25%/5.25%	5%
Year ultimate trend rate is achieved	2023	2020
Discount rate	4.10%	3.80%

The mortality basis was updated to the RP-2014 total dataset (generational projection using MP-2015-GFR) from the 2014 RP-2000 Optional Combined (two-fold static projection using Scale AA).

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

<u>Year Ending December 31,</u>	
2016	\$ 78,372
2017	83,372
2018	87,346
2019	86,838
2020	94,522
2021 through 2025	<u>523,233</u>
	<u>\$ 953,683</u>

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

9. 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, 2015 and 2014, was \$415,082 and \$376,086, respectively.

10. 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, and Baptist Village Communities of Oklahoma, Inc. As of December 31, 2015 and 2014, OBHC had amounts due from related parties of approximately \$72,538 and \$89,342, respectively. As of December 31, 2015 and 2014, OBHC had amounts due to related parties of approximately \$31,619 and \$7,360, 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, 2015 and 2014, investments and beneficial interests in funds held by BFO on behalf of OBHC were \$68,799,559 and \$69,891,829, respectively. In relation to holding and managing OBHC's investments, BFO charged total fees of approximately \$704,000 and \$705,000 for the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, OBHC had a long-term pledge receivable, net of discount, of \$1,035,642 and \$1,175,919, respectively, due from BGCO. (See Note 11.) OBHC also made rent payments to BGCO for office space totaling \$89,556 and \$99,556 for the years ended December 31, 2015 and 2014, respectively.

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

11. LONG-TERM PLEDGE RECEIVABLE FROM 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 does not have a stated interest rate, has a face amount of \$3,518,890 and is due in 213 monthly payments of \$16,500 and one final payment of \$4,390. At December 31, 2015 and 2014, the pledge had a balance of \$1,035,642 and \$1,175,919, respectively, and is reflected in the December 31, 2015 and 2014, statements of financial position, net of an unamortized discount of \$156,748 and \$214,472, respectively. The original discount at the inception of the pledge was \$1,234,814, based on a discount rate of 5.19 percent. Income of \$57,724 and \$64,804 was recognized in the December 31, 2015 and 2014, statements of activities, respectively, from amortization of the discount.

Pledge receivable due:

Within 1 year	\$ 147,731
1-5 years	673,729
5+ years	<u>214,182</u>
	<u>\$ 1,035,642</u>

12. PRIOR PERIOD ADJUSTMENT:

During the current year, management determined that certain amounts previously reported as investments and unrestricted net assets and temporarily restricted net assets should have been classified as beneficial interests in funds held by others and temporarily restricted net assets and permanently restricted net assets. As a result, the 2014 financial statements have been restated to properly reflect these amounts. The impact of this restatement on the financial statements is as follows:

	<u>As Previously Stated</u>	<u>Prior Period Adjustment</u>	<u>As Restated</u>
Statement of financial position:			
Investments, December 31, 2014	\$ 69,891,829	\$ (61,467,589)	\$ 8,424,240
Beneficial interest in funds held by others, December 31, 2014	\$ -	\$ 61,467,589	\$ 61,467,589
Unrestricted net assets, December 31, 2014	\$ 20,327,077	\$ (6,344)	\$ 20,320,733
Temporarily restricted net assets, December 31, 2014	\$ 21,586,897	\$ (12,632,527)	\$ 8,954,370
Permanently restricted net assets, December 31, 2014	\$ 41,940,007	\$ 12,638,871	\$ 54,578,878

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

12. PRIOR PERIOD ADJUSTMENT, continued:

	As Previously Stated	Prior Period Adjustment	As Restated
Statement of activities:			
For the year ended December 31, 2014			
Other contributions, unrestricted	\$ 4,410,001	\$ 2,250	\$ 4,412,251
Other contributions, permanently restricted	\$ 3,372,019	\$ (3,372,019)	\$ -
Net assets released from restrictions:			
Unrestricted	\$ 2,208,051	\$ (939,629)	\$ 1,268,422
Temporarily restricted	\$ (2,208,051)	\$ 939,629	\$ (1,268,422)
Home office expenses	\$ 1,976,282	\$ (81,343)	\$ 1,894,939
Non-operating investment income:			
Unrestricted	\$ -	\$ 858,014	\$ 858,014
Temporarily restricted	\$ 1,959,658	\$ (1,959,658)	\$ -
Contributions of beneficial interests, permanently restricted	\$ -	\$ 3,369,769	\$ 3,369,769
Change in value of beneficial interests:			
Temporarily restricted	\$ 258,081	\$ (66,489)	\$ 191,592
Permanently restricted	\$ 58,196	\$ 1,086,790	\$ 1,144,986
Changes in net assets:			
Unrestricted	\$ (368,716)	\$ (57,024)	\$ (425,740)
Temporarily restricted	\$ 1,169,446	\$ (1,027,516)	\$ 141,930
Permanently restricted	\$ 3,430,215	\$ 1,084,540	\$ 4,514,755
Statement of cash flows:			
For the year ended December 31, 2014			
Net realized and unrealized gains on investments	\$ (5,433,847)	\$ 1,336,578	\$ (4,097,269)
Change in value of beneficial interest in funds held by others	\$ -	\$ (1,336,578)	\$ (1,336,578)
Contributions restricted for long-term purposes	\$ (4,737,716)	\$ 2,250	\$ (4,735,466)
Contributions of beneficial interest in funds held by others (previously investment in permanent endowment)	\$ 3,372,019	\$ (2,250)	\$ 3,369,769

OKLAHOMA BAPTIST HOMES FOR CHILDREN, INC.

Notes to Financial Statements

December 31, 2015 and 2014

13. COMMITMENTS AND CONTINGENCIES:

OBHC has entered into construction contracts and purchase agreements of approximately \$2,608,000, of which \$20,000 has been paid as of December 31, 2015. Remaining commitments are approximately \$2,588,000.

14. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.