

**METHODIST CHILDREN'S HOME  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2018 AND 2017**

**WITH INDEPENDENT AUDITORS' REPORT**

**METHODIST CHILDREN'S HOME**

**TABLE OF CONTENTS**

**JUNE 30, 2018 AND 2017**

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	3
Statements of Activities	
For the Year Ended June 30, 2018	5
For the Year Ended June 30, 2017	6
Statements of Cash Flows	7
Notes to Financial Statements	8



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Methodist Children's Home

### **Report on the Financial Statements**

We have audited the accompanying statements of financial position of Methodist Children's Home (a nonprofit organization) as of June 30, 2018 and 2017, and the related statements of activities, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Methodist Children's Home as of June 30, 2018 and 2017, 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.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a separate report dated October 22, 2018, on our consideration of the Methodist Children's Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Atchley & Associates, LLP".

Austin, Texas  
October 22, 2018

**METHODIST CHILDREN'S HOME**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,763,167	\$ 7,052,577
Receivables	121,737	132,603
Pledges, net	10,824	409,406
Supplies and prepaid expenses	52,944	73,583
Total Current Assets	9,948,672	7,668,169
<b>PROPERTY &amp; EQUIPMENT, NET OF DEPRECIATION</b>	13,477,410	10,666,481
<b>LONG-TERM PLEDGES, NET</b>	17,811	26,733
<b>ENDOWMENT</b>		
Invested cash	8,768,707	46,811,068
Corporate stock	331,747,266	307,095,183
Fixed income securities	95,018,225	65,260,619
Beneficial interest in trusts	19,027,678	20,134,480
Mineral rights	19,147,458	17,167,581
Real estate	2,018,043	2,196,043
Mortgage loans and others	177,941	177,941
Total Endowment	475,905,318	458,842,915
<b>TOTAL ASSETS</b>	\$ 499,349,211	\$ 477,204,298

The accompanying notes to financial statements are an integral part of these statements.

**METHODIST CHILDREN'S HOME**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 363,546	\$ 511,976
Accrued salaries	2,148,591	1,792,574
Current portion of gift annuities payable	180,833	138,361
Total Current Liabilities	2,692,970	2,442,911
<b>LONG-TERM PORTION OF GIFT ANNUITIES PAYABLE</b>		
	1,061,870	665,368
Total Liabilities	3,754,840	3,108,279
<b>NET ASSETS</b>		
Unrestricted		
General operating	(1,749,139)	(1,032,459)
Defined income	12,368,255	14,705,254
Board-designated endowment fund	453,227,672	434,365,397
Plant	13,477,410	10,666,481
Total Unrestricted Net Assets	477,324,198	458,704,673
Temporarily restricted	8,680,457	6,011,068
Permanently restricted	9,589,716	9,380,278
Total Net Assets	495,594,371	474,096,019
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 499,349,211</b>	<b>\$ 477,204,298</b>

The accompanying notes to financial statements are an integral part of these statements.

**METHODIST CHILDREN'S HOME**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>				
Operational revenues				
Contributions and donations	\$ 3,303,913	\$ -	\$ -	\$ 3,303,913
Program and grants	1,539,624	-	-	1,539,624
Other income	26,792	-	-	26,792
Total operational revenues	4,870,329	-	-	4,870,329
Appropriated from board designated	20,451,000	-	-	20,451,000
Total revenues	25,321,329	-	-	25,321,329
<b>PROGRAM SERVICES</b>	24,246,933	-	-	24,246,933
<b>SUPPORTING SERVICES</b>	4,398,311	-	-	4,398,311
<b>OTHER INCOME (EXPENSES)</b>				
Gifts and bequests	1,498,075	4,849,262	209,438	6,556,775
Income earned on investments	17,103,046	493,679	-	17,596,725
Investment expenses	(3,371,791)	-	-	(3,371,791)
Realized gains (losses)				
on investments	17,295,915	-	-	17,295,915
Change in unrealized gains (losses)				
on investments	7,195,643	-	-	7,195,643
Satisfaction of program restrictions	2,673,552	(2,673,552)	-	-
Appropriated to general fund	(20,451,000)	-	-	(20,451,000)
Total other income (expenses)	21,943,440	2,669,389	209,438	24,822,267
<b>CHANGE IN NET ASSETS</b>	18,619,525	2,669,389	209,438	21,498,352
<b>NET ASSETS, BEGINNING</b>	458,704,673	6,011,068	9,380,278	474,096,019
<b>NET ASSETS, END</b>	\$ 477,324,198	\$ 8,680,457	\$ 9,589,716	\$ 495,594,371

The accompanying notes to financial statements are an integral part of these statements.

**METHODIST CHILDREN'S HOME  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>				
Operational revenues				
Contributions and donations	\$ 3,294,459	\$ -	\$ -	\$ 3,294,459
Program and grants	1,619,784	-	-	1,619,784
Other income	30,496	-	-	30,496
Total operational revenues	4,944,739	-	-	4,944,739
Appropriated from board designated	20,169,000	-	-	20,169,000
Total revenues	25,113,739	-	-	25,113,739
<b>PROGRAM SERVICES</b>	22,709,066	-	-	22,709,066
<b>SUPPORTING SERVICES</b>	4,519,019	-	-	4,519,019
<b>OTHER INCOME (EXPENSES)</b>				
Gifts and bequests	1,256,738	2,488,113	1,172,891	4,917,742
Income earned on investments	13,749,914	562,332	56,685	14,368,931
Investment expenses	(3,136,797)	-	-	(3,136,797)
Realized gains (losses) on investments	18,232,682	-	-	18,232,682
Change in unrealized gains (losses) on investments	19,276,498	-	-	19,276,498
Satisfaction of program restrictions	2,810,749	(2,810,749)	-	-
Appropriated to general fund	(20,169,000)	-	-	(20,169,000)
Total other income (expenses)	32,020,784	239,696	1,229,576	33,490,056
<b>CHANGE IN NET ASSETS</b>	29,906,438	239,696	1,229,576	31,375,710
<b>NET ASSETS, BEGINNING</b>	428,798,235	5,771,372	8,150,702	442,720,309
<b>NET ASSETS, END</b>	\$ 458,704,673	\$ 6,011,068	\$ 9,380,278	\$ 474,096,019

The accompanying notes to financial statements are an integral part of these statements.



**METHODIST CHILDREN'S HOME  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 21,498,352	\$ 31,375,710
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation and amortization	1,183,866	1,223,152
Allowance for doubtful pledges	(3,248)	(48,531)
(Gain)/loss on sale of assets	-	14,225
Realized losses (gains) on investments	(17,295,915)	(18,232,682)
Unrealized (gains) losses on investments	(7,195,643)	(19,276,498)
Contributions restricted for endowment	(209,438)	(1,172,891)
Decrease (increase) in assets:		
Receivables	10,866	(13,339)
Pledges	410,752	68,181
Supplies and prepaid expenses	20,639	6,141
Increase (decrease) in liabilities:		
Accounts payable	(148,430)	(144,788)
Accrued salaries	356,017	(202,315)
Gift annuities	438,974	61,919
Net Change in Cash from Operating Activities	<u>(933,208)</u>	<u>(6,341,716)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net proceeds (purchases) from sale of investments	7,429,155	12,112,432
Proceeds from sales of property and equipment	124,711	67,633
Purchase of property and equipment	<u>(4,119,506)</u>	<u>(2,546,841)</u>
Net Change in Cash from Investing Activities	<u>3,434,360</u>	<u>9,633,224</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Endowment contributions	<u>209,438</u>	<u>1,172,891</u>
Net Change in Cash from Financing Activities	<u>209,438</u>	<u>1,172,891</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	2,710,590	4,464,399
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>7,052,577</u>	<u>2,588,178</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 9,763,167</u></u>	<u><u>\$ 7,052,577</u></u>

The accompanying notes to financial statements are an integral part of these statements.

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**1. Organization and Summary of Significant Accounting Policies**

The Methodist Children's Home (MCH) prepares its financial statements in accordance with generally accepted accounting principles in the United States of America. The application of these accounting principles requires MCH to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. They also require recognition of contributions, including contributed service meeting certain criteria, at fair values. Below is a summary of certain significant accounting policies selected by management.

A. Nature of Organization

The Methodist Children's Home, established in 1890, has focused its mission on caring for at-risk children from Texas and New Mexico. MCH serves children from infancy all the way through after-care services, such as college and transitional living programs. The residential program has a capacity of 358 and MCH provides a variety of in-home services for children and families through its outreach offices.

B. Basis of Presentation

The financial statements of MCH have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities in accordance with generally accepted accounting principles.

C. Codification

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) is the single official source of authoritative, nongovernmental U. S. generally accepted accounting principles (GAAP).

D. Use of Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Cash and Cash Equivalents

The indirect method is used to prepare the statement of cash flows. For the purposes of this statement, MCH considers cash in bank accounts and all highly liquid investments with original maturity of three months or less at the date of acquisition to be "cash equivalents" excluding those funds that are assigned to investment managers for long-term investment purposes.

F. Net Asset Categories

U.S. generally accepted accounting principles require that resources be classified into three net asset categories according to donor-imposed restrictions or by law.

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**1. Organization and Summary of Significant Accounting Policies (Continued)**

F. Net Asset Categories - Continued

Unrestricted net assets include (1) contributions for which the donor has specifically identified the usage as current operations or no usage was specified, (2) Board designated endowment funds, (3) Board designated endowment earning released for operations, and (4) plant acquisitions.

Temporarily restricted net assets include contributions for which specific donor restrictions have not yet been met. The majority of the balance in this category was derived from accumulated earnings on permanently restricted scholarship funds to be used exclusively for the funding of higher education for MCH's children.

Permanently restricted net assets include contributions permanently restricted by the donor.

G. Investments

Investments in marketable securities, funds administered by third party trustees, and mineral rights are valued at their estimated fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities. All other investments are carried at cost.

It is MCH's policy that the endowment fund's accounts are to include both equity and fixed income (including cash) assets. MCH has elected to have separate investment advisors and accounts for common stock and fixed income investment management. Each investment advisor is given the authority to be fully invested in their respective asset category. The investment policy allows for the following allocation of total endowment: Equities of 40-75%, Fixed Income of 15-30%, and Alternative Assets of 0-35%.

MCH's investment policy represents a conservative investment strategy designed to obtain a total return necessary to enhance the principal, while concurrently providing a consistent source of income. Investment managers of equity or fixed income portions of the portfolio are expected to produce rates of return that rank in the top 50 percent of their respective peer groups. Standard and Poor's 500 Index is the benchmark used to evaluate returns. The endowment fund should be diversified to minimize risk of loss, with the equity portion assuming more risk and greater earning potential, while the fixed income portion assumes less risk and generates lower long-term earnings.

H. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that MCH has the ability to access.

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**1. Organization and Summary of Significant Accounting Policies (Continued)**

H. Fair Value Measurements - Continued

- Level 2 - Inputs to the valuation methodology include:
- Quoted market prices for similar assets or liabilities in active markets;
  - Quoted prices for identical assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability; and
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 2 - If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full-term of the asset or liability.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

*Cash and Invested Cash* - The carrying amounts reported in the statement of financial position approximate fair values due to of the short maturities of those instruments.

*Accrued Investment Income* - The income earned and later reinvested into investments. The carrying amounts reported in the statement of financial position approximate fair values due to the short duration of reinvestment.

*Corporate and Fixed Income Securities* - Corporate stock and fixed income securities are reported at quoted market prices.

*Beneficial Interests in Trusts* - MCH is the beneficiary of numerous trusts managed by independent third parties. In accordance with U.S. generally accepted accounting principles, MCH's beneficial interest in these trusts is recorded at the estimated value of expected future cash receipts. The estimated fair value being used is a capitalization rate of ten times the current year's gross receipts. The change in this value from year to year is reflected in the change in unrealized gains in the statement of activities.

*Mineral Rights* - From time to time, MCH has been the recipient of mineral rights. These rights are recorded at estimated value at time of receipt or, if not readily available, at a nominal one dollar. In accordance with GAAP, these rights are recorded at their estimated future value as of the date of the financial statements. An independent third party determines this value. The change in the estimated value is reflected in the change of unrealized gains in the statement of activities.

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**1. Organization and Summary of Significant Accounting Policies (Continued)**

H. Fair Value Measurements - Continued

*Real Estate and Mortgage Loans* - From time to time, MCH has been the recipient of real estate. These properties are recorded at the estimated value at the time of receipt.

Mortgage loans and other are recorded at their net cost values.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although MCH believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

I. Contributions, Investment Income, and Gains Restricted by Donors

MCH reports gifts or investment income and gains as restricted income if it is received with donor stipulation that restricts the gift's use or income to a specific purpose or has a time restriction. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. If these restrictions are met in the same period in which the gift or income is earned, the gift or income is recorded as unrestricted support.

J. Grant Income

MCH receives a portion of its revenues from several governmental grant programs offered by both federal and state departments. The monies reimbursed to MCH from these grant programs fluctuates from year to year but it is based upon the amount of services provided for the eligible children associated with those governmental programs. The governmental grant programs that MCH is involved with are the Foster Care program and the National School Breakfast and Lunch program.

K. Property and Equipment

According to the MCH capitalization policy, acquisitions of property, buildings, and equipment in excess of \$5,000 are generally capitalized. Property, buildings, and equipment purchased are capitalized at cost as of the date of acquisition. Donated property, buildings, and equipment are capitalized at fair value as of date of contribution. Major renovations of existing property are also capitalized. Regular repair and maintenance are expensed as incurred. Property and equipment are being depreciated over estimated useful lives of 5 to 50 years using a straight-line method as follows:

<u>Assets</u>	<u>Years</u>
Building	10-50
Improvements	10-50
Equipment	5-10
Vehicles	5

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**1. Organization and Summary of Significant Accounting Policies (Continued)**

L. Compensated Absences

Paid time off (PTO) is available for all regularly scheduled full time and part time employees, and begins to accrue the first pay period of employment. At the end of each calendar year, eligible employees may carry over 80 hours of accrued, unused PTO. All unused PTO in excess of 80 hours will be credited to the employee's major medical leave account. Upon termination, any unused PTO is paid to the employee. In addition, the employee is eligible to be paid a percentage of unused major medical. If the employee has 3 years or less of service, they forfeit their unused major medical. Employees with 3 to 5 years of service receive 33.3% of their major medical accrual and employees with 5 years or more of service are paid 50% of their major medical accrual upon voluntary termination.

M. Permanently Restricted Assets

Interpretation of Law

The Board of Directors of MCH has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the purchasing power (real value) of the donor-restricted funds absent explicit donor stipulations to the contrary. As a result of this interpretation, MCH classifies as permanently restricted net assets (1) the original value of gifts donated to the permanently restricted assets, (2) the original value of subsequent gifts to permanently restricted assets, (3) accumulations to the permanently restricted assets made in accordance with the direction of the applicable donor gift instrument at the time of accumulation is added, and (4) the portion of investment return added to the permanently restricted assets to maintain purchasing power. For purposes of determining that portion, each year MCH adjusts permanently restricted net assets by an amount determined to be reasonable for use in the operations but also provide for the change in the average Consumer Price Index (CPI).

Permanently restricted assets have specific restrictions on the how the earnings can be utilized.

As an additional means of assessing and guiding investment results, MCH contracts separately with an investment firm which has the sole task of evaluating the performance of the endowment fund manager and presenting their findings to the Investment Committee of the Board of Directors.

N. Federal Income Tax

MCH is a nonprofit corporation, as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes. MCH adopted FASB ASC 740-10, *Accounting for Uncertainty in Income Tax*. That standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. MCH's federal exempt organization returns for the years ended June 30, 2015, and after, are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**1. Organization and Summary of Significant Accounting Policies (Continued)**

O. Recently Announced Accounting Pronouncement

In August 2016, the FASB issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statement of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statement of activities the amount of the change in each of these two classes of net assets. The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method, however it will be required for an entity to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. MCH is currently evaluating the impact the standard will have on its financial statements.

P. Subsequent Events

Management of MCH has evaluated subsequent events for disclosure through the date of the Independent Auditors' Report, the date the financial statements were available to be issued.

**2. Concentrations of Credit and Market Risk**

Financial instruments which potentially expose MCH to concentrations of credit and market risk consist primarily of invested cash and marketable securities. MCH had realized gains of \$17,295,915 and \$18,232,682 which are reflected in the statements of activities for the years ended June 30, 2018 and 2017, respectively. MCH had no cash balances in excess of FDIC coverage at June 30, 2018.

**3. Receivables**

The following is a breakdown of the accounts receivable balance for MCH as of June 30, 2018 and 2017, respectively:

	2018	2017
Texas Comptroller Office	\$ 107,171	\$ 132,073
Miscellaneous receivables	14,566	530
Total Receivables	\$ 121,737	\$ 132,603

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**4. Pledges**

The following is a breakdown of the pledge receivable balance for MCH as of June 30, 2018 and 2017, respectively:

	2018	2017
Due in less than one year	\$ 10,824	\$ 409,406
Due in one to five years	17,811	26,733
	\$ 28,635	\$ 436,139

Management has determined that the pledges for the years ended June 30, 2018 and 2017, are not fully collectible and have estimated the following allowance for uncollectible pledges. The allowance for doubtful accounts are \$3,248 and \$48,531, for the years ended June 30, 2018 and 2017, respectively. The present value discount are \$595 and \$643, for the years ended June 30, 2018 and 2017, respectively.

**5. Property and Equipment**

The components of fixed assets at cost are:

	2018	2017
Land and improvements	\$ 3,745,983	\$ 3,612,279
Buildings and building improvements	16,661,945	11,764,702
Equipment and furniture	2,357,264	2,403,128
Vehicles	1,604,987	1,525,258
Construction in process	-	1,706,152
Total Fixed Assets	24,370,179	21,011,519
Less: Accumulated Depreciation	(10,892,769)	(10,345,038)
Net Property and Equipment	\$ 13,477,410	\$ 10,666,481

Depreciation expense for the years ended June 30, 2018 and 2017, was \$1,183,866 and \$1,223,152, respectively.

**6. Retirement Plan**

Prior to January 1, 2018, MCH had a 401(k) safe harbor plan and the plan covered employees with one year of service that included 1000 hours of service and had reached the age of twenty-one. Under the plan, participants could determine the percentage of annual earnings to contribute and MCH matched contributions up to 6% of the employee deduction. Effective January 1, 2018, the plan was amended to allow employees to contribute to the plan once they reach 2 consecutive months of employment, completing 168 hours of service, and reach the age of twenty-one. However, MCH continues to match contributions up to 6% of the employee deduction after one year of service that includes 1000 hours of service. Contributions of MCH for the years ended June 30, 2018 and 2017, were \$851,069 and \$752,077, respectively.



**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**7. Investments**

Investments at the end of the year consisted of the following:

Investment Type	June 30, 2018		June 30, 2017	
	Cost Basis	Market Value	Cost Basis	Market Value
Invested cash	\$ 8,768,707	\$ 8,768,707	\$ 46,811,068	\$ 46,811,068
Corporate stock	298,185,686	331,747,266	279,408,785	307,095,183
Fixed income securities	96,704,932	95,018,225	64,446,020	65,260,619
Beneficial interest in trusts	19,027,678	19,027,678	20,134,480	20,134,480
Mineral interests	24,238,071	19,147,458	24,238,071	17,167,581
Real estate	2,018,043	2,018,043	2,196,043	2,196,043
Mortgage loans and others	177,941	177,941	177,941	177,941
<b>Total Investments</b>	<b>\$ 449,121,058</b>	<b>\$ 475,905,318</b>	<b>\$ 437,412,408</b>	<b>\$ 458,842,915</b>

Investment income consisted of the following:

	2018	2017
Dividends and interest	\$ 9,175,528	\$ 6,627,915
Mineral rights proceeds	6,259,357	5,469,664
Receipts from trust funds administered by third party trustees	1,902,768	2,002,940
Real estate and other income	259,072	268,412
<b>Total Investment Income</b>	<b>\$ 17,596,725</b>	<b>\$ 14,368,931</b>

Investment expenses consisted of the following:

	2018	2017
Investment advisors / custodian fees	\$ 1,935,331	\$ 1,973,732
Mineral interests	836,494	870,028
Real estate expenses	12,977	89,931
Annuity payments	576,396	194,944
Other expenses	10,593	8,162
<b>Total Investment Expenses</b>	<b>\$ 3,371,791</b>	<b>\$ 3,136,797</b>

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**8. Fair Value Measurement**

The following table sets forth by level, within the fair value hierarchy, MCH's assets at fair value as of June 30, 2018 and 2017. Fair value equates to carrying value at June 30, 2018 and 2017, respectively.

Assets at Fair Value as of June 30, 2018

	Level 1	Level 2	Level 3	Total
Cash and invested cash	\$ 8,768,707	\$ -	\$ -	\$ 8,768,707
Corporate and fixed income securities	426,765,491	-	-	426,765,491
Beneficial interest in trusts	-	-	19,027,678	19,027,678
Mineral interests	-	-	19,147,458	19,147,458
Real estate and mortgage loans	-	2,195,984	-	2,195,984
	<u>\$ 435,534,198</u>	<u>\$ 2,195,984</u>	<u>\$ 38,175,136</u>	<u>\$ 475,905,318</u>

Assets at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
Cash and invested cash	\$ 46,811,068	\$ -	\$ -	\$ 46,811,068
Corporate and fixed income securities	372,355,802	-	-	372,355,802
Beneficial interest in trusts	-	-	20,134,480	20,134,480
Mineral interests	-	-	17,167,581	17,167,581
Real estate and mortgage loans	-	2,373,984	-	2,373,984
	<u>\$ 419,166,870</u>	<u>\$ 2,373,984</u>	<u>\$ 37,302,061</u>	<u>\$ 458,842,915</u>

The following table sets forth a summary of changes in the fair value of MCH's Level 3 assets for the years ended June 30, 2018 and 2017.

	Beneficial Interest in Trusts	Mineral Interests
Balance, July 1, 2016	\$ 18,397,440	\$ 19,993,179
Purchases, sales, gains, losses (net)	1,737,040	(2,825,598)
Balance, June 30, 2017	20,134,480	17,167,581
Purchases, sales, gains, losses (net)	(1,106,802)	1,979,877
Balance, June 30, 2018	<u>\$ 19,027,678</u>	<u>\$ 19,147,458</u>

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**9. Appropriations to Defined Income**

MCH classifies 4.5% of the adjusted board designated endowment fund from the corpus to defined income. The portfolio balance is based on the average of the last twelve calendar quarters.

Defined income is the unrestricted appropriated funds from the board designated endowment fund that have not yet been appropriated to the general operating account.

The changes in defined income for the years ended June 30, 2018 and 2017, are as follows:

	2018	2017
Appropriations from endowment fund	\$ 20,451,000	\$ 20,169,000
Investment income	352,183	-
Appropriations to general fund	(23,140,182)	(19,193,572)
Net change	<u>(2,336,999)</u>	<u>975,428</u>
Balance at beginning of year	<u>14,705,254</u>	<u>13,729,826</u>
Total Investment Income	<u><u>\$ 12,368,255</u></u>	<u><u>\$ 14,705,254</u></u>

**10. Net Endowment Assets**

The following is an analysis of the activity in the endowment account for the year ended June 30, 2018:

	Unrestricted				Total
	Defined Income	Board Designated Endowment	Temporarily Restricted	Permanently Restricted	
Net Assets,					
June 30, 2017	\$ 14,705,254	\$ 434,365,397	\$ 6,011,068	\$ 9,380,278	\$ 464,461,997
Investment income	352,183	16,695,230	493,679	-	17,541,092
Investment expenses	-	(3,371,588)	-	-	(3,371,588)
Contributions	-	1,498,075	4,849,262	209,438	6,556,775
Appropriated	(2,689,182)	(20,451,000)	(2,673,552)	-	(25,813,734)
Realized gains (losses)	-	17,295,915	-	-	17,295,915
Unrealized gains (losses)	-	7,195,643	-	-	7,195,643
Net Assets,					
June 30, 2018	<u><u>\$ 12,368,255</u></u>	<u><u>\$ 453,227,672</u></u>	<u><u>\$ 8,680,457</u></u>	<u><u>\$ 9,589,716</u></u>	<u><u>\$ 483,866,100</u></u>

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**10. Net Endowment Assets (Continued)**

The following is an analysis of the activity in the endowment account for the year ended June 30, 2017:

	Unrestricted				Total
	Defined Income	Board Designated Endowment	Temporarily Restricted	Permanently Restricted	
Net Assets, June 30, 2016	\$ 13,729,826	\$ 405,172,656	\$ 5,771,372	\$ 8,150,702	\$ 432,824,556
Investment income	-	13,732,620	562,332	56,685	14,351,637
Investment expenses	-	(3,136,797)	-	-	(3,136,797)
Contributions	-	1,256,738	2,488,113	1,172,891	4,917,742
Appropriated	975,428	(20,169,000)	(2,810,749)	-	(22,004,321)
Realized gains (losses)	-	18,232,682	-	-	18,232,682
Unrealized gains (losses)	-	19,276,498	-	-	19,276,498
Net Assets, June 30, 2017	<u>\$ 14,705,254</u>	<u>\$ 434,365,397</u>	<u>\$ 6,011,068</u>	<u>\$ 9,380,278</u>	<u>\$ 464,461,997</u>

**11. Restriction on Net Assets**

At June 30, 2018 and 2017, temporarily restricted net assets were restricted for:

	2018	2017
Payments of scholarships	\$ 3,160,959	\$ 3,591,523
Program activities	5,519,498	2,419,545
	<u>\$ 8,680,457</u>	<u>\$ 6,011,068</u>

At June 30, 2018 and 2017, temporarily restricted net assets were released from restrictions for:

	2018	2017
Payments of scholarships	\$ 430,564	\$ 424,308
Program activities	2,242,988	2,386,441
	<u>\$ 2,673,552</u>	<u>\$ 2,810,749</u>

At June 30, 2018 and 2017, permanently restricted net assets were restricted for:

	2018	2017
Investments in perpetuity, the income from which is expendable to support scholarship and future operations	<u>\$ 9,589,716</u>	<u>\$ 9,380,278</u>

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**12. Gift Annuities**

From time to time MCH receives gift annuities from donors. Quarterly payments are made until the donor passes, at which time MCH may recognize the remaining portion of the annuity as contribution revenue.

During the years ended June 30, 2018 and 2017, MCH received \$1,240,572 and \$215,000 in new gift annuities, made payments of \$576,396 and \$194,944 and recognized the remaining portion of gift annuities of \$0 and \$0, respectively.

Gift annuities are calculated at present value using a discount rate that ranges from 5.1% - 15.4% depending on that specific annuity agreement and published life expectancy tables. Estimated minimum gift annuities payments due under the donor agreements are as follows:

<u>Years ending June 30,</u>	
2019	\$ 180,833
2020	180,833
2021	180,833
2022	180,833
2023	180,833
Other	<u>338,538</u>
Total	<u><u>\$ 1,242,703</u></u>

**13. Operating Leases**

MCH leases properties in Texas and New Mexico and related office equipment, which serve as offices for its foster care and outreach programs. Minimum rents due under the leasing agreements are as follows:

<u>Years ending June 30,</u>	
2019	\$ 352,799
2020	242,959
2021	107,222
2022	65,150
2023	43,750
Thereafter	<u>-</u>
Total	<u><u>\$ 811,880</u></u>

Rent expense for the years ended June 30, 2018 and 2017, was \$631,219 and \$465,275, respectively.