

**METHODIST CHILDREN'S HOME  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2019**

**WITH INDEPENDENT AUDITORS' REPORT**

**METHODIST CHILDREN'S HOME**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Methodist Children's Home

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

We have audited the accompanying statement of financial position of Methodist Children's Home (a nonprofit organization) as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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, 2019, and the changes in its net assets and its cash flows for the year 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 17, 2019, 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 black ink that reads "Atchley & Associates, LLP". The signature is written in a cursive, flowing style.

Austin, Texas

October 17, 2019

**METHODIST CHILDREN'S HOME**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 14,453,832
Receivables	122,468
Pledges, net	648,601
Supplies and prepaid expenses	12,438
Total current assets	15,237,339

**PROPERTY & EQUIPMENT, NET OF DEPRECIATION**

16,966,178

**LONG-TERM PLEDGES, NET**

47,435

**ENDOWMENT**

Invested cash	62,932,442
Corporate stock	267,686,460
Fixed income securities	118,720,193
Beneficial interest in trusts	20,564,600
Mineral rights	30,230,650
Real estate	2,477,053
Mortgage loans and others	104,173
Total endowment	502,715,571

**TOTAL ASSETS**

\$ 534,966,523

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

**METHODIST CHILDREN'S HOME**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 394,875
Accrued salaries	2,303,174
Current portion of gift annuities payable	180,908
Total current liabilities	2,878,957

**LONG-TERM PORTION OF GIFT ANNUITIES PAYABLE**

1,019,898

Total liabilities

3,898,855

**NET ASSETS**

Without donor restriction

General operating	360,127
Defined income	8,706,717
Board-designated endowment fund	484,475,903
Plant	16,966,178
Total net assets without donor restriction	510,508,925

With donor restriction

Time and purpose	10,929,153
In perpetuity	9,629,590
Total net assets with donor restriction	20,558,743
Total net assets	531,067,668

**TOTAL LIABILITIES AND NET ASSETS**

\$ 534,966,523

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, 2019**

	Without Donor	With Donor Restriction		Total
	Restriction	Time and Purpose	In Perpetuity	
<b>REVENUES</b>				
Operational revenues				
Contributions and donations	\$ 3,711,349	\$ -	\$ -	\$ 3,711,349
Program and grants	1,415,808	-	-	1,415,808
Other income	81,238	-	-	81,238
Total operational revenues	5,208,395	-	-	5,208,395
Appropriated from board designated	20,596,008	-	-	20,596,008
Total revenues	25,804,403	-	-	25,804,403
<b>PROGRAM SERVICES</b>	21,690,854	-	-	21,690,854
<b>SUPPORTING SERVICES</b>	6,155,011	-	-	6,155,011
<b>OTHER INCOME (EXPENSES)</b>				
Gifts and bequests	1,950,594	4,673,770	39,874	6,664,238
Investment return, net	50,042,258	1,404,271	-	51,446,529
Satisfaction of program restrictions	3,829,345	(3,829,345)	-	-
Appropriated to general fund	(20,596,008)	-	-	(20,596,008)
Total other income (expenses)	35,226,189	2,248,696	39,874	37,514,759
<b>CHANGE IN NET ASSETS</b>	33,184,727	2,248,696	39,874	35,473,297
<b>NET ASSETS, BEGINNING</b>	477,324,198	8,680,457	9,589,716	495,594,371
<b>NET ASSETS, END</b>	\$ 510,508,925	\$ 10,929,153	\$ 9,629,590	\$ 531,067,668

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

**METHODIST CHILDREN'S HOME**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Supporting Services			Total
	Program Services	General & Administrative	Fundraising	
Bank fees	\$ 1,735	\$ 13,205	\$ 14,619	\$ 29,559
Board and volunteer	199	27,477	6,991	34,667
Business insurance	118,103	23,707	9,328	151,138
Depreciation	933,335	83,714	30,421	1,047,470
Designated funds	480,183	-	145,439	625,622
Development and marketing	33,268	338	399,420	433,026
Direct client services	2,058,961	-	-	2,058,961
Employee expenses	379,894	58,522	32,079	470,495
Employee recruitment	-	14,927	-	14,927
Household	183,522	35,547	2,667	221,736
In-kind expenses	-	-	115,393	115,393
Miscellaneous	11,324	5,690	480	17,494
Occupancy costs	1,324,680	222,670	22,398	1,569,748
Office communication and technology	430,881	81,143	68,774	580,798
Office supplies	107,708	22,468	4,426	134,602
Organizational memberships	6,500	14,943	-	21,443
Postage	4,757	5,127	18,832	28,716
Professional services	-	74,914	-	74,914
Ranch operations	-	34,436	-	34,436
Salaries, benefits, and contracted services	15,361,986	3,282,546	1,193,813	19,838,345
Training	34,888	57,248	641	92,777
Vehicle	218,930	14,308	16,360	249,598
	<u>\$ 21,690,854</u>	<u>\$ 4,072,930</u>	<u>\$ 2,082,081</u>	<u>\$ 27,845,865</u>

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

**METHODIST CHILDREN'S HOME  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 35,473,297
Adjustments to reconcile change in net assets to net change in cash from operating activities:	
Depreciation	1,047,470
Allowance for doubtful pledges	(74,233)
(Gain)/loss on disposal of property and equipment	70,049
Realized losses (gains) on investments	(11,206,278)
Unrealized (gains) losses on investments	(17,442,821)
Contributions restricted for endowment	(39,874)
Decrease (increase) in assets:	
Receivables	(731)
Pledges	(593,168)
Supplies and prepaid expenses	40,506
Increase (decrease) in liabilities:	
Accounts payable	31,329
Accrued salaries	154,583
Gift annuities	(41,897)
Net Change in Cash from Operating Activities	<u>7,418,232</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Net proceeds (purchases) from sale of investments	1,838,846
Purchase of property and equipment	(4,606,287)
Net Change in Cash from Investing Activities	<u>(2,767,441)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Endowment contributions	39,874
Net Change in Cash from Financing Activities	<u>39,874</u>

**NET CHANGE IN CASH AND CASH EQUIVALENTS** 4,690,665

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 9,763,167

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 14,453,832

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

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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 net assets with donor restrictions and net assets without donor restrictions. 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 two net asset categories according to donor-imposed restrictions or by law.

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

F. Net Asset Categories - Continued

Net assets without donor restrictions 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 earnings released for operations, and (4) plant acquisitions.

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

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 as investment returns 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, 2019**

**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.

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, 2019.

*Cash and Invested Cash* - The carrying amounts reported in the statement of financial position approximate fair values due to 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 net investment returns 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 in net investment returns in the statement of activities.

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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, 2019**

**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 120 hours of accrued, unused PTO. All unused PTO in excess of 120 hours will be forfeited at that time. 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. Net Assets Restricted by Donors in Perpetuity

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 net assets with donor restrictions (1) the original value of gifts donated to the donor-restricted assets, (2) the original value of subsequent gifts to the donor-restricted assets, (3) accumulations to the donor-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 donor-restricted assets to maintain purchasing power. For purposes of determining that portion, each year MCH adjusts net assets donor restrictions 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).

Net assets restricted by donors in perpetuity 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, 2016, 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, 2019**

**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 addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. MCH has adjusted the presentation of its financial statements accordingly.

P. Functional Expenses

Directly identifiable expenses are classified as program and supporting services. Expenses related to more than one function are allocated to program and supporting services on the basis of management estimates. Supporting services include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of MCH. Salaries, benefits, and contracted services and business insurance costs are allocated based on budgeted salaries, and vehicle costs are allocated based on prior year mileage rates. All other expenses are allocated based on time and effort.

Q. 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 \$11,206,278, which is reflected in the statement of activities for the year ended June 30, 2019. MCH had no cash balances in excess of FDIC coverage at June 30, 2019.

**3. Receivables**

At June 30, 2019, the entirety of MCH's \$122,468 accounts receivable balance was related to the Texas Comptroller Office.

**4. Pledges**

The following is a breakdown of the pledge receivable balance for MCH as of June 30, 2019:

Due in less than one year	\$ 648,601
Due in one to five years	47,435
	<hr/>
	\$ 696,036
	<hr/> <hr/>

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**4. Pledges (Continued)**

Management has determined that the pledges for the year ended June 30, 2019, are not fully collectible and have estimated the following allowance for uncollectible pledges. The allowance for doubtful accounts is \$77,481 and the present value discount is \$1,291 for the year ended June 30, 2019.

**5. Property and Equipment**

The components of fixed assets at cost are:

Land and improvements	\$ 3,695,562
Buildings and building improvements	19,657,280
Equipment and furniture	2,218,893
Vehicles	1,479,200
Total Fixed Assets	<u>27,050,935</u>
Less: Accumulated depreciation	<u>(10,084,757)</u>
Net property and equipment	<u><u>\$ 16,966,178</u></u>

Depreciation expense for the year ended June 30, 2019 was \$1,047,470.

**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 year ended June 30, 2019 was \$910,115.

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**7. Investments**

Investments at June 30, 2019, consisted of the following:

<u>Investment Type</u>	<u>Cost Basis</u>	<u>Market Value</u>
Invested cash	\$ 62,932,442	\$ 62,932,442
Corporate stock	298,185,686	267,686,460
Fixed income securities	96,704,932	118,720,193
Beneficial interest in trusts	20,564,600	20,564,600
Mineral interests	24,238,071	30,230,650
Real estate	2,477,053	2,477,053
Mortgage loans and others	104,173	104,173
Total investments	<u>\$ 505,206,957</u>	<u>\$ 502,715,571</u>

Investment return for the year ended June 30, 2019, consisted of the following:

Dividends and interest	\$ 11,624,539
Mineral rights proceeds	9,990,455
Receipts from trust funds administered by third party trustees	2,056,460
Real estate and other income	2,568,502
Realized and unrealized gains on investments	<u>28,649,099</u>
Total investment income	<u>54,889,055</u>

Investment expenses consisted of the following:

Investment advisors / custodian fees	1,974,002
Mineral interests	1,243,452
Real estate expenses	54,968
Annuity payments	138,000
Other expenses	<u>32,104</u>
Total investment expenses	<u>3,442,526</u>
Investment return, net	<u>\$ 51,446,529</u>

**METHODIST CHILDREN'S HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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, 2019. Fair value equates to carrying value at June 30, 2019.

	Level 1	Level 2	Level 3	Total
Cash and invested cash	\$ 62,932,442	\$ -	\$ -	\$ 62,932,442
Corporate and fixed income securities	386,406,653	-	-	386,406,653
Beneficial interest in trusts	-	-	20,564,600	20,564,600
Mineral interests	-	-	30,230,650	30,230,650
Real estate and mortgage loans	-	2,581,226	-	2,581,226
	<u>\$ 449,339,095</u>	<u>\$ 2,581,226</u>	<u>\$ 50,795,250</u>	<u>\$ 502,715,571</u>

The following table sets forth a summary of changes in the fair value of MCH's Level 3 assets for the year ended June 30, 2019.

	Beneficial Interest in Trusts	Mineral Interests
Balance, June 30, 2018	\$ 19,027,678	\$ 19,147,458
Purchases, sales, gains, losses (net)	1,536,922	11,083,192
Balance, June 30, 2019	<u>\$ 20,564,600</u>	<u>\$ 30,230,650</u>

**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 year ended June 30, 2019, are as follows:

Appropriations from endowment fund	\$ 20,596,008
Investment income	(34,156)
Appropriations to general fund	(24,223,390)
Net change	<u>(3,661,538)</u>
Balance at beginning of year	<u>12,368,255</u>
Total investment income	<u>\$ 8,706,717</u>

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**10. Net Endowment Assets**

The following is an analysis of the activity in the endowment account for the year ended June 30, 2019:

	Without Donor Restriction		With Donor Restriction		Total
	Defined Income	Board Designated Endowment	Time and Purpose	In Perpetuity	
Net Assets, June 30, 2018	\$ 12,368,255	\$ 453,227,672	\$ 8,680,457	\$ 9,589,716	\$ 483,866,100
Investment return, net	(34,156)	49,893,645	1,404,271	-	51,263,760
Contributions	-	1,950,594	4,673,770	39,874	6,664,238
Appropriated	<u>(3,627,382)</u>	<u>(20,596,008)</u>	<u>(3,829,345)</u>	<u>-</u>	<u>(28,052,735)</u>
Net Assets, June 30, 2019	<u>\$ 8,706,717</u>	<u>\$ 484,475,903</u>	<u>\$ 10,929,153</u>	<u>\$ 9,629,590</u>	<u>\$ 513,741,363</u>

**11. Restriction on Net Assets**

At June 30, 2019, net assets with donor restrictions for time or purpose were restricted for:

Payments of scholarships	\$ 3,160,959
Program activities	<u>7,768,194</u>
	<u>\$ 10,929,153</u>

For the year ended June 30, 2019, net assets with donor restrictions were released from restrictions for:

Payments of scholarships	\$ 437,997
Program activities	<u>3,391,348</u>
	<u>\$ 3,829,345</u>

At June 30, 2019, net assets with donor restrictions in perpetuity were restricted for:

Investments in perpetuity, the income from which is expendable to support scholarship and future operations	<u>\$ 9,629,590</u>
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**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 year ended June 30, 2019, MCH received \$30,000 in new gift annuities, made payments of \$138,000 and recognized the remaining portion of gift annuities of \$0.

Gift annuities are calculated at present value using a discount rate that ranges from 4.4% - 9.0% 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>	
2020	\$ 180,908
2021	180,908
2022	180,908
2023	180,908
2024	180,908
Other	<u>296,266</u>
Total	<u><u>\$ 1,200,806</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>	
2020	\$ 483,105
2021	379,540
2022	236,598
2023	208,612
2024	119,396
Thereafter	<u>11,770</u>
Total	<u><u>\$ 1,439,021</u></u>

Rent expense for the year ended June 30, 2019, was \$619,512.

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**14. Accrued Insurance**

MCH maintains a 100% self-insured health insurance plan for its employees. Under the plan, MCH pays 95% of premium costs and employees cover 5% which are used for current and future claim payments. MCH uses a third party administrator in the administration of the plan who provides estimated incurred but not recorded (IBNR) amounts using actuarial assumptions and plan activity. At June 30, 2019, IBNR amounts to \$233,075.

**15. Available Resources and Liquidity**

The following represent MCH's financial assets at June 30, 2019:

Financial assets at year-end	
Cash and cash equivalents	\$ 14,453,832
Receivables	122,468
Pledges, net	648,601
Endowment	<u>502,715,571</u>
Total financial assets at year-end	<u>517,940,472</u>
Less amounts not available for general expenditures in the next twelve months	
Investment in excess of board designated endowment, not appropriated for fiscal year 2020 and those held in reserves	467,573,592
Less assets with donor restrictions	<u>20,558,743</u>
	<u>488,132,335</u>
Financial assets available to meet cash needs for general expenditures over the next twelve months	<u><u>\$ 29,808,137</u></u>

MCH's goal is generally to maintain financial assets to meet between three to six months of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.