

METHODIST CHILDREN'S HOME
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2022 AND 2021
WITH INDEPENDENT AUDITOR'S REPORT

METHODIST CHILDREN’S HOME

TABLE OF CONTENTS

JUNE 30, 2022 AND 2021

	<u>Page Number</u>
Independent Auditor’s Report	1 – 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements.....	7 – 18



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Methodist Children's Home

Opinion

We have audited the financial statements of Methodist Children's Home (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Methodist Children's Home as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), as well as the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Methodist Children's Home and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Methodist Children's Home's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Methodist Children's Home's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Methodist Children's Home's 2021 financial statements, and our report dated October 21, 2021 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2022, 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Methodist Children's Home's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

October 25, 2022

METHODIST CHILDREN'S HOME

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 22,415,502	\$ 15,082,611
Receivables	87,058	106,513
Pledges, net	-	14,173
Supplies and prepaid expenses	123,974	68,699
Total current assets	22,626,534	15,271,996
PROPERTY & EQUIPMENT, NET OF DEPRECIATION	32,132,166	29,599,068
LONG-TERM PLEDGES, NET	-	3,870
ENDOWMENT		
Invested cash	15,804,530	15,805,036
Alternative investments	102,739,639	93,322,676
Corporate stock	257,418,016	333,953,893
Fixed income securities	105,669,839	114,646,037
Beneficial interest in trusts	22,571,190	20,410,980
Mineral rights	27,028,102	16,399,997
Real estate	1,485,178	1,498,918
Mortgage loans, and others	-	82,807
Accrued investment income	748,527	409,007
Total endowment	533,465,021	596,529,351
Total assets	\$ 588,223,721	\$ 641,404,285
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,088,431	\$ 1,374,611
Accrued salaries	1,954,593	1,585,682
Current portion of gift annuities payable	86,788	149,038
Total current liabilities	3,129,812	3,109,331
LONG-TERM PORTION OF GIFT ANNUITIES PAYABLE	701,535	922,118
Total liabilities	3,831,347	4,031,449
NET ASSETS		
Without donor restriction		
General operating	82,956	603,317
Defined income	8,566,077	7,245,165
Board-designated endowment fund	521,238,849	577,927,037
Plant	32,132,166	29,599,068
Total net assets without donor restriction	562,020,048	615,374,587
With donor restriction		
Time and purpose	11,605,015	11,609,600
In perpetuity	10,767,311	10,388,649
Total net assets with donor restriction	22,372,326	21,998,249
Total net assets	584,392,374	637,372,836
Total liabilities and net assets	\$ 588,223,721	\$ 641,404,285

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

METHODIST CHILDREN'S HOME

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

(With summarized financial information for the year ended June 30, 2021)

	Without Donor Restriction	With Donor Restriction		2022 Total	2021 Total
		Time and Purpose	In Perpetuity		
REVENUES					
Contributions and donations	\$ 4,407,962	\$ -	\$ -	\$ 4,407,962	\$ 4,181,729
Gifts and bequests	911,709	5,308,562	358,703	6,578,974	2,898,362
Program and grants	1,124,951	-	-	1,124,951	1,253,020
Investment income, net of expenses	28,041,695	1,133,376	-	29,175,071	18,671,752
Realized gain on sale of investments	17,435,801	-	-	17,435,801	42,161,467
Unrealized gain(loss) on investments	(84,336,778)	-	-	(84,336,778)	60,411,362
Gain on disposal of assets	28,279	-	-	28,279	79,807
Gain on extinguishment of debt	-	-	-	-	3,426,130
Other income	1,009,234	172,757	19,959	1,201,950	59,553
Net assets released from restrictions:					
Satisfaction of program restrictions	<u>6,619,280</u>	<u>(6,619,280)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>(24,757,867)</u>	<u>(4,585)</u>	<u>378,662</u>	<u>(24,383,790)</u>	<u>133,143,182</u>
EXPENSES					
Residential services	11,501,638	-	-	11,501,638	10,707,727
Family outreach services	8,621,123	-	-	8,621,123	7,538,545
Transitional services	1,635,300	-	-	1,635,300	1,334,637
Emergency services	<u>140,553</u>	<u>-</u>	<u>-</u>	<u>140,553</u>	<u>411,711</u>
Total program services	<u>21,898,614</u>	<u>-</u>	<u>-</u>	<u>21,898,614</u>	<u>19,992,620</u>
Management and general	5,366,245	-	-	5,366,245	5,313,209
Fundraising	<u>1,331,813</u>	<u>-</u>	<u>-</u>	<u>1,331,813</u>	<u>1,265,371</u>
Total support services	<u>6,698,058</u>	<u>-</u>	<u>-</u>	<u>6,698,058</u>	<u>6,578,580</u>
TOTAL EXPENSES	<u>28,596,672</u>	<u>-</u>	<u>-</u>	<u>28,596,672</u>	<u>26,571,200</u>
CHANGE IN NET ASSETS	(53,354,539)	(4,585)	378,662	(52,980,462)	106,571,982
NET ASSETS, BEGINNING	<u>615,374,587</u>	<u>11,609,600</u>	<u>10,388,649</u>	<u>637,372,836</u>	<u>530,800,854</u>
NET ASSETS, ENDING	<u>\$ 562,020,048</u>	<u>\$ 11,605,015</u>	<u>\$ 10,767,311</u>	<u>\$ 584,392,374</u>	<u>\$ 637,372,836</u>

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

METHODIST CHILDREN'S HOME

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

(With summarized financial information for the year ended June 30, 2021)

	Program Services					Support Services			2022 Total	2021 Total
	Residential Services	Family Outreach Services	Transitional Services	Emergency Services	Total Program Services	Management & General	Fundraising	Total Support Services		
Salaries	\$ 6,496,864	\$ 4,300,295	\$ 604,492	\$ 51,584	\$ 11,453,235	\$ 2,608,658	\$ 712,918	\$ 3,321,576	\$ 14,774,811	\$ 14,399,508
Payroll taxes	485,104	332,649	47,106	150	865,009	185,275	52,111	237,386	1,102,395	1,078,323
Employee benefits	1,598,402	943,232	157,189	580	2,699,403	1,430,831	128,134	1,558,965	4,258,368	3,923,815
Contract services	71,541	11,177	974	8	83,700	9,040	-	9,040	92,740	154,298
Medical fees	35,917	2,009	36	-	37,962	-	-	-	37,962	34,881
Household	150,086	32,961	3,329	1,535	187,911	38,428	11,546	49,974	237,885	229,819
Insurance	76,387	53,086	8,865	36	138,374	30,548	8,492	39,040	177,414	190,780
Board / Volunteer	-	-	-	-	-	28,221	-	28,221	28,221	8,780
Communication and technology	352,955	257,925	49,902	181	660,963	116,094	59,000	175,094	836,057	675,009
Designated funds	108,351	800	234,102	-	343,253	88,716	14,695	103,411	446,664	229,351
Development and marketing	2,635	21,218	1,913	15	25,781	217,053	184,451	401,504	427,285	394,131
Employee expenses	42,850	248,658	11,788	87	303,383	58,730	18,129	76,859	380,242	203,527
Direct client services	839,514	1,270,980	85,032	1,252	2,196,778	-	-	-	2,196,778	1,669,840
Employee recruitment	-	-	-	-	-	9,318	-	9,318	9,318	11,088
In-kind expenses	-	-	-	-	-	-	45,769	45,769	45,769	74,631
Memberships	-	-	-	-	-	38,074	-	38,074	38,074	52,260
Miscellaneous	14,290	6,375	1,347	5	22,017	16,773	22,983	39,756	61,773	49,462
Occupancy costs	648,896	480,543	124,536	27,985	1,281,960	163,465	11,352	174,817	1,456,777	1,463,355
Office supplies	48,246	66,899	19,254	1,482	135,881	14,187	5,240	19,427	155,308	122,018
Postage	2,311	5,738	540	4	8,593	5,452	9,963	15,415	24,008	37,435
Professional services	-	-	-	-	-	74,634	-	74,634	74,634	98,295
Ranch operations	-	-	-	-	-	53,471	-	53,471	53,471	39,157
Training	13,896	43,425	3,902	30	61,253	31,751	449	32,200	93,453	78,035
Vehicle	174,252	527	9,680	-	184,459	39,000	7,241	46,241	230,700	163,358
Depreciation	339,141	542,626	271,313	55,619	1,208,699	108,526	39,340	147,866	1,356,565	1,190,044
	<u>\$ 11,501,638</u>	<u>\$ 8,621,123</u>	<u>\$ 1,635,300</u>	<u>\$ 140,553</u>	<u>\$ 21,898,614</u>	<u>\$ 5,366,245</u>	<u>\$ 1,331,813</u>	<u>\$ 6,698,058</u>	<u>\$ 28,596,672</u>	<u>\$ 26,571,200</u>

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

METHODIST CHILDREN'S HOME

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$(52,980,462)	\$ 106,571,982
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,356,565	1,190,044
(Gain)/loss on disposal of property and equipment	(28,279)	(79,807)
(Gain) on extinguishment of debt	-	(3,426,130)
Realized losses (gains) on investments	(17,435,801)	(42,161,467)
Unrealized losses (gains) on investments	84,336,778	(60,411,362)
Decrease (increase) in assets:		
Accounts receivable	19,455	(6,732)
Pledges receivable	18,043	1,368,023
Supplies and prepaid expenses	(55,275)	(43,322)
Accrued investment income	(748,527)	(409,007)
Increase (decrease) in liabilities:		
Accounts payable	(286,180)	479,945
Accrued salaries	368,911	(610,806)
Gift annuities	(282,833)	(77,570)
Net cash provided by operating activities	14,282,395	2,383,791
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from (purchase) sale of investments	(3,088,120)	10,302,462
Proceeds from disposal of assets	41,938	84,228
Purchase of capital items	(3,903,322)	(8,492,023)
Net cash provided (used) by investing activities	(6,949,504)	1,894,667
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,332,891	4,278,458
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,082,611	10,804,153
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 22,415,502	\$ 15,082,611

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

METHODIST CHILDREN'S HOME

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

1. NATURE OF OPERATIONS

The Methodist Children's Home ("MCH"), 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MCH prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). 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 services meeting certain criteria, at fair value. Below is a summary of certain significant accounting policies selected by management.

Basis of Accounting

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 GAAP.

Adoption of New Accounting Standard

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 to Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. MCH adopted the new standard effective July 1, 2020, using the modified retrospective approach.

Adoption of ASC 606 had no impact to the recognition of revenue in MCH's financial statements. MCH recognized no cumulative effect adjustment upon adoption. Adoption of the standard resulted in enhanced revenue-related disclosures that provide information with respect to MCH's analysis of certain contracts.

Although ASC 606 is not expected to have a material impact to MCH's ongoing net income, MCH implemented changes to its processes and procedures related to revenue recognition and the control activities within them.

Use of Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Key accounting policies that include significant judgments and estimates include the depreciation of capital assets and the fair value of investments.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, MCH considers cash in bank 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.

Basis of Presentation

Net assets, revenues, gains and losses are classified on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Such net assets are available for any purpose consistent with the MCH’s mission. Designations of net assets by the governing board do not have the same legal requirements as do restrictions of funds and are included in this category.

Net Assets With Donor Restrictions – Net assets subject to specific, donor-imposed restrictions that must be met by actions the of MCH and/or passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Investments

Investments in marketable securities, funds administered by third party trustees, and mineral rights are valued at their estimated fair values in the statements of financial position. Unrealized gains and losses are included in the statements 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 40-75%, Fixed Income 15-30%, and Alternative Assets of 0-35%. In accordance with Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities* Topic 958, investment advisor fees are netted against investment income in the statements of activities.

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.

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 stipulations that restrict 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 statements 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 support within net assets without donor restrictions.

Grant Income

MCH receives a portion of its revenues from several governmental grant programs offered by both federal and state departments. The money 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 is the Foster Care program and the National School Breakfast and Lunch program.

Donated Materials and Supplies

Donated material and supplies are valued at their estimated fair value at the date of donation. As donated items are used, a corresponding expense is recorded.

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 their estimated 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
Storage tanks	10 - 15

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.

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, though it would be subject to tax on income unrelated to its exempt purpose. MCH has concluded that no tax benefits or liabilities are required to be recognized in accordance with GAAP. The last three tax years remain open to examination by taxing authorities.

MCH has 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 and interim periods, disclosure, and transition.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, expenses directly related to a function are directly allocated to that function. Expenses that are attributable to or support more than one function are allocated 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 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.

3. 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 has realized gains of \$17,435,801 and \$42,161,467 which are reflected in the statements of activities for the years ended June 30, 2022 and 2021 respectively. MCH had cash balances in excess of FDIC coverage at June 30, 2022 and 2021.

4. RECEIVABLES

The following is a breakdown of the accounts receivable balance for MCH as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Texas Comptroller Office	\$ 68,421	\$ 70,975
2Ingage	18,602	19,375
Miscellaneous receivables	<u>35</u>	<u>16,163</u>
Total receivables	<u>\$ 87,058</u>	<u>\$ 106,513</u>

5. PLEDGES RECEIVABLE

The following is a breakdown of the pledges receivable balance for MCH as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Due in less than one year	\$ -	\$ 14,173
Due in one to five years	<u>-</u>	<u>3,870</u>
Total receivables	<u>\$ -</u>	<u>\$ 18,043</u>

Management has determined that the pledges for the years ended June 30, 2022 and 2021, are not fully collectible and have estimated the following allowance for uncollectible pledges. The allowance for doubtful accounts is \$0 and \$2,007, respectively, and the present value discount is \$0 and \$16 for the years ended June 30, 2022 and 2021, respectively.

6. PROPERTY AND EQUIPMENT

The components of fixed assets at cost are:

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 3,897,613	\$ 3,827,536
Buildings and building improvements	35,907,312	32,778,606
Equipment and furniture	2,254,562	2,233,183
Vehicles	<u>1,511,102</u>	<u>1,550,049</u>
	43,570,589	40,389,374
Less accumulated depreciation	<u>(11,438,423)</u>	<u>(10,790,306)</u>
Net property and equipment	<u>\$ 32,132,166</u>	<u>\$ 29,599,068</u>

Depreciation expense for the years ended June 30, 2022 and 2021, was \$1,356,565 and \$1,190,044, respectively.

7. RETIREMENT PLAN

MCH has a 401(k) safe harbor plan that covers employees with two consecutive months of service completing 168 hours of service and have reached the age of twenty-one. MCH matches 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, 2022 and 2021 was \$969,216 and \$978,353, respectively.

8. INVESTMENTS

Investments at June 30, 2022, consisted of the following:

Investment Type	June 30, 2022	
	Cost Basis	Market Value
Invested cash	\$ 15,804,530	\$ 15,804,530
Alternative investments	109,817,507	102,739,639
Corporate stock	226,165,356	257,418,016
Fixed income securities	117,643,646	105,669,839
Beneficial interest in trusts	22,571,190	22,571,190
Mineral interests	27,028,102	27,028,102
Real estate	1,485,178	1,485,178
Accrued investment income	<u>748,527</u>	<u>748,527</u>
Total investments	<u>\$ 521,264,036</u>	<u>\$ 533,465,021</u>

Investments at June 30, 2021, consisted of the following:

Investment Type	June 30, 2021	
	Cost Basis	Market Value
Invested cash	\$ 15,805,036	\$ 15,805,036
Alternative investments	93,322,676	93,322,676
Corporate stock	225,146,085	333,953,893
Fixed income securities	110,799,471	114,646,037
Beneficial interest in trusts	20,410,980	20,410,980
Mineral interests	16,399,997	16,399,997
Real estate	1,498,918	1,498,918
Mortgage loans and others	82,807	82,807
Accrued investment income	<u>409,007</u>	<u>409,007</u>
Total investments	<u>\$ 483,874,977</u>	<u>\$ 596,529,351</u>

Investment income consisted of the following:

	2022	2021
Dividends and interest	\$ 15,728,391	\$ 15,084,208
Mineral rights proceeds	14,200,167	4,356,708
Receipts from trust funds administered by third party trustees	2,257,120	2,041,098
Real estate and other income	414,229	163,788
Realized and unrealized gains (losses)	<u>(66,900,977)</u>	<u>102,572,829</u>
Total investment income (loss)	<u>\$ (34,301,070)</u>	<u>\$ 124,218,631</u>

Investment expenses consisted of the following:

	<u>2022</u>	<u>2021</u>
Investment advisors/custodian fees	\$ 2,145,928	\$ 2,004,686
Mineral interests	1,374,577	834,188
Real estate expenses	37,448	36,404
Annuity payments (recognition)	(164,454)	77,754
Other expenses	<u>31,337</u>	<u>21,018</u>
Total investment expense	<u>\$ 3,424,836</u>	<u>\$ 2,974,050</u>

9. FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosure*, 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.

Level 2 - Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar 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, 2022.

Cash and Invested Cash –

The carrying amounts reported in the statements 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 statements 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 GAAP, 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 statements 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 unrealized gains in the statements of activities.

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 methods described 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 the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy MCH's assets at fair value as of June 30, 2022.

	Assets at Fair Value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
Cash and invested cash	\$ 15,804,530	\$ -	\$ -	\$ 15,804,530
Alternative investments	-	102,739,639	-	102,739,639
Accrued investment income	748,527	-	-	748,527
Corporate stock	257,418,016	-	-	257,418,016
Fixed income securities	105,669,839	-	-	105,669,839
Third party trusts	-	-	22,571,190	22,571,190
Mineral interests	-	-	27,028,102	27,028,102
Real estate and mortgage loans	-	1,485,178	-	1,485,178
	<u>\$ 379,640,912</u>	<u>\$ 104,224,817</u>	<u>\$ 49,599,292</u>	<u>\$ 533,465,021</u>

The following table sets forth by level, within the fair value hierarchy MCH's assets at fair value as of June 30, 2021.

Assets at Fair Value as of June 30, 2021				
	Level 1	Level 2	Level 3	Total
Cash and invested cash	\$ 15,805,036	\$ -	\$ -	\$ 15,805,036
Alternative investments	-	93,322,676	-	93,322,676
Accrued investment income	409,007	-	-	409,007
Corporate stock	333,953,893	-	-	333,953,893
Fixed income securities	114,646,037	-	-	114,646,037
Third party trusts	-	-	20,410,980	20,410,980
Mineral interests	-	-	16,399,997	16,399,997
Real estate and mortgage loans	-	1,581,725	-	1,581,725
	<u>\$ 464,813,973</u>	<u>\$ 94,904,401</u>	<u>\$ 36,810,977</u>	<u>\$ 596,529,351</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, 2022.

Level 3 Assets Year Ended June 30, 2022		
	Beneficial Interest in Trusts	Mineral Interests
Balance, June 30, 2021	\$ 20,410,980	\$ 16,399,997
Purchases, sales, gains, losses (net)	<u>2,160,210</u>	<u>10,628,105</u>
Balance, June 30, 2022	<u>\$ 22,571,190</u>	<u>\$ 27,028,102</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, 2021.

Level 3 Assets Year Ended June 30, 2021		
	Beneficial Interest in Trusts	Mineral Interests
Balance, June 30, 2020	\$ 20,713,015	\$ 24,425,567
Purchases, sales, gains, losses (net)	<u>(302,035)</u>	<u>(8,025,570)</u>
Balance, June 30, 2021	<u>\$ 20,410,980</u>	<u>\$ 16,399,997</u>

10. GAINS ALLOCATED TO DEFINED INCOME

MCH may classify 3% to 7% of the invested portfolio 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 net investment income generated by the endowment fund that has not yet been appropriated to the general operating account.

The changes in defined income for the years ended June 30, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Allocated gains	\$ 22,299,996	\$ 21,753,000
Appropriations to general fund	<u>(20,979,085)</u>	<u>(19,766,294)</u>
Net change	1,320,911	1,986,706
Balance at beginning of year	<u>7,245,166</u>	<u>5,258,460</u>
Defined income	<u>\$ 8,566,077</u>	<u>\$ 7,245,166</u>

11. NET ENDOWMENT ASSETS

MCH's endowment consists of a number of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of MCH has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 with donor restrictions by an amount determined to be reasonable for use in 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 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.

Although UPMIFA does not preclude MCH from spending below the original value of donor-restricted endowments, MCH considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. MCH has adopted a policy not to spend from underwater endowments unless directed otherwise by the donor.

At times the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires MCH to retain as a fund of perpetual duration. As of the date of these statements, no such deficiencies exist in the endowments.

In accordance with UPMIFA, MCH considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of MCH and the donor-restricted endowment fund;
3. The general economic conditions;
4. The possible effect of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of MCH;
7. The investment policies of MCH.

The following is an analysis of the activity in the endowment account for the year ended June 30, 2022:

	Without Donor Restriction		With Donor Restriction		Total
	Defined Income	Board		Time and Purpose	
		Designated Endowment	In Perpetuity		
Net assets, June 30, 2021	\$ 7,245,166	\$ 577,927,037	\$ 11,609,600	\$ 10,388,649	\$ 607,170,452
Investment return, net	-	31,823,053	(2,681,316)	-	29,141,737
Contributions	-	911,709	5,308,562	358,703	6,578,974
Appropriated	1,320,911	(22,299,997)	(2,804,588)	-	(23,783,674)
Realized gains (losses)	-	17,435,801	-	-	17,435,801
Unrealized gains (losses)	-	(84,336,778)	-	-	(84,336,778)
Other income (expense)	-	(221,976)	172,757	19,959	(29,260)
Net assets, June 30, 2022	<u>\$ 8,566,077</u>	<u>\$ 521,238,849</u>	<u>\$ 11,605,015</u>	<u>\$ 10,767,311</u>	<u>\$ 552,177,252</u>

The following is an analysis of the activity in the endowment account for the year ended June 30, 2021:

	Without Donor Restriction		With Donor Restriction		Total
	Defined Income	Board		Time and Purpose	
		Designated Endowment	In Perpetuity		
Net assets, June 30, 2020	\$ 5,258,460	\$ 482,242,087	\$ 11,128,979	\$ 9,656,824	\$ 508,286,350
Investment return, net	-	13,823,786	4,825,850	-	18,649,636
Contributions	-	1,041,335	1,125,202	731,825	2,898,362
Appropriated	2,986,706	(21,753,000)	(6,470,431)	-	(25,236,725)
Realized gains (losses)	-	42,161,467	-	-	42,161,467
Unrealized gains (losses)	-	60,411,362	-	-	60,411,362
Other income (expense)	(1,000,000)	-	1,000,000	-	-
Net assets, June 30, 2021	<u>\$ 7,245,166</u>	<u>\$ 577,927,037</u>	<u>\$ 11,609,600</u>	<u>\$ 10,388,649</u>	<u>\$ 607,170,452</u>

12. GIFT ANNUITIES

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

During the year ended June 30, 2022, MCH received \$0 in new gift annuities, made payments of \$118,379, and recognized the remaining portion of gift annuities of \$164,454.

During the year ended June 30, 2021, MCH received \$9,739 in new gift annuities, made payments of \$77,754, 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% – 8.1% depending on that specific annuity agreement and published life expectancy tables. Estimated minimum gift annuities payments due under the donor agreements are as follows:

Years ending June 30,	
2023	\$ 86,788
2024	64,034
2025	64,034
2026	64,034
2027	64,034
2028 and beyond	<u>445,399</u>
Total	<u>\$ 788,323</u>

13. NOTES PAYABLE

On April 22, 2020, MCH received loan proceeds in the amount of \$3,426,130 under the Paycheck Protection Program ("PPP") issued by the Small Business Administration. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The PPP loan was fully forgiven in June 2021 and recorded as gain on extinguishment of debt in the statements of activities.

14. OPERATING LEASES

MCH leases properties in Texas and New Mexico, 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>	
2023	\$ 432,118
2024	374,159
2025	259,467
2026	212,673
2027	90,125
Thereafter	<u>38,372</u>
Total	<u>\$ 1,406,914</u>

Rent expense for the years ended June 30, 2022, and 2021 was \$513,775 and \$566,529, respectively.

15. 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 is used for current and future claim payments. For the year ended June 30, 2021, MCH used a third-party administrator in the administration of the plan who provided estimated incurred but not reported (IBNR) amounts using actuarial assumptions and plan activity. At June 30, 2021, IBNR amounted to \$176,259. For the year ended June 30, 2022, MCH used a different third-party administrator in the administration of the plan who provides a Lag report of costs incurred in prior months but paid in the current month. Based on that information, the IBNR amount of \$176,259 was retained as of June 30, 2022.

16. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects MCH's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Cash & cash equivalents	\$ 22,415,502	\$ 15,082,611
Receivables	87,058	106,513
Pledges, net (current portion)	-	14,173
Endowment	<u>533,465,021</u>	<u>596,529,351</u>
Financial assets, at year-end	555,967,581	611,732,648
Less:		
Investment in excess of board designated endowment, not appropriated for fiscal year 2022 and 2021, and those held in reserves	496,754,849	555,378,037
Assets restricted by donor	<u>22,372,326</u>	<u>21,998,249</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 36,840,406</u>	<u>\$ 34,356,362</u>

MCH's goal is generally to maintain financial assets to meet between three and 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.

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 25, 2022, the issuance date of this report. No other events were noted that require disclosure.

THIS PAGE LEFT BLANK INTENTIONALLY