

**METHODIST CHILDREN'S HOME**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2023 AND 2022**  
**WITH INDEPENDENT AUDITOR'S REPORT**



**METHODIST CHILDREN’S HOME**

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## 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, 2023, 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, 2023, 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 2022 financial statements, and our report dated October 25, 2022 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, 2022, 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 27, 2023, 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 27, 2023

**METHODIST CHILDREN'S HOME**

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	2023	2022
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 12,303,193	\$ 22,415,502
Receivables	77,307	87,058
Supplies and prepaid expenses	64,010	123,974
Total current assets	12,444,510	22,626,534
<b>RIGHT OF USE ASSET</b>	1,164,098	-
<b>PROPERTY &amp; EQUIPMENT, NET OF DEPRECIATION</b>	40,629,565	32,132,166
<b>ENDOWMENT</b>		
Invested cash	9,859,304	15,804,530
Alternative investments	115,989,135	102,739,639
Corporate stock	302,420,785	257,418,016
Fixed income securities	103,657,901	105,669,839
Beneficial interest in trusts	25,642,547	22,571,190
Mineral rights	32,942,690	27,028,102
Real estate	448,548	1,485,178
Accrued investment income	500,506	748,527
Total endowment	591,461,416	533,465,021
Total assets	\$ 645,699,589	\$ 588,223,721
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,752,227	\$ 1,088,431
Accrued salaries	1,601,389	1,954,593
Current portion of gift annuities payable	88,481	86,788
Right of use liability - current	414,380	-
Total current liabilities	3,856,477	3,129,812
<b>LONG-TERM PORTION OF GIFT ANNUITIES PAYABLE</b>	689,747	701,535
<b>RIGHT OF USE LIABILITY - LONG TERM</b>	749,718	-
Total liabilities	5,295,942	3,831,347
<b>NET ASSETS</b>		
Without donor restriction		
General operating	452,688	82,956
Defined income	10,788,688	8,566,077
Board-designated endowment fund	564,485,784	521,238,849
Plant	40,629,565	32,132,166
Total net assets without donor restriction	616,356,725	562,020,048
With donor restriction		
Time and purpose	13,236,554	11,605,015
In perpetuity	10,810,368	10,767,311
Total net assets with donor restriction	24,046,922	22,372,326
Total net assets	640,403,647	584,392,374
Total liabilities and net assets	\$ 645,699,589	\$ 588,223,721

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

## METHODIST CHILDREN'S HOME

### STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2023

(With summarized financial information for the year ended June 30, 2022)

	Without Donor Restriction	With Donor Restriction		2023 Total	2022 Total
		Time and Purpose	In Perpetuity		
<b>REVENUES</b>					
Contributions and donations	\$ 4,408,118	\$ -	\$ -	\$ 4,408,118	\$ 4,407,962
Gifts and bequests	334,192	5,053,255	38,234	5,425,681	6,578,974
Program and grants	1,234,494	-	-	1,234,494	1,124,951
Investment income, net of expenses	28,966,734	1,133,376	-	30,100,110	29,175,071
Realized gain (loss) on sale of investments	( 8,172,736)	-	-	( 8,172,736)	17,435,801
Unrealized gain (loss) on investments	52,822,787	-	-	52,822,787	( 84,336,778)
Gain on disposal of assets	45,942	-	-	45,942	28,279
Other income	53,313	( 4,823)	4,823	53,313	1,201,950
Net assets released from restrictions:					
Satisfaction of program restrictions	4,550,269	( 4,550,269)	-	-	-
Total revenues	<u>84,243,113</u>	<u>1,631,539</u>	<u>43,057</u>	<u>85,917,709</u>	<u>( 24,383,790)</u>
<b>EXPENSES</b>					
Residential services	12,720,528	-	-	12,720,528	11,501,638
Family outreach services	8,791,248	-	-	8,791,248	8,621,123
Transitional services	2,072,366	-	-	2,072,366	1,635,300
Emergency services	<u>102,623</u>	<u>-</u>	<u>-</u>	<u>102,623</u>	<u>140,553</u>
Total program services	<u>23,686,765</u>	<u>-</u>	<u>-</u>	<u>23,686,765</u>	<u>21,898,614</u>
Management and general	4,674,309	-	-	4,674,309	5,366,245
Fundraising	<u>1,545,362</u>	<u>-</u>	<u>-</u>	<u>1,545,362</u>	<u>1,331,813</u>
Total support services	<u>6,219,671</u>	<u>-</u>	<u>-</u>	<u>6,219,671</u>	<u>6,698,058</u>
<b>TOTAL EXPENSES</b>	<u>29,906,436</u>	<u>-</u>	<u>-</u>	<u>29,906,436</u>	<u>28,596,672</u>
<b>CHANGE IN NET ASSETS</b>	54,336,677	1,631,539	43,057	56,011,273	( 52,980,462)
<b>NET ASSETS, BEGINNING</b>	<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>
<b>NET ASSETS, ENDING</b>	\$ <u>616,356,725</u>	\$ <u>13,236,554</u>	\$ <u>10,810,368</u>	\$ <u>640,403,647</u>	\$ <u>584,392,374</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, 2023

(With summarized financial information for the year ended June 30, 2022)

	Program Services					Support Services			2023 Total	2022 Total
	Residential Services	Family Outreach Services	Transitional Services	Emergency Services	Total Program Services	Management & General	Fundraising	Total Support Services		
Salaries	\$ 7,240,010	\$ 4,571,397	\$ 811,326	\$ 695	\$ 12,623,428	\$ 2,266,179	\$ 800,080	\$ 3,066,259	\$ 15,689,687	\$ 14,774,811
Payroll taxes	551,197	351,666	61,926	53	964,842	156,505	58,057	214,562	1,179,404	1,102,395
Employee benefits	1,725,869	1,057,420	186,116	159	2,969,564	1,075,952	159,865	1,235,817	4,205,381	4,258,368
Contract services	78,174	-	-	-	78,174	21,392	-	21,392	99,566	92,740
Medical fees	52,654	( 301)	641	-	52,994	-	-	-	52,994	37,962
Household	228,032	30,426	7,467	8	265,933	19,688	2,040	21,728	287,661	237,885
Insurance	108,296	73,503	14,607	17	196,423	43,272	12,198	55,470	251,893	177,414
Board / Volunteer	-	-	-	-	-	18,918	6,338	25,256	25,256	28,221
Communication and technology	341,058	250,652	59,024	60	650,794	124,475	65,085	189,560	840,354	836,057
Designated funds	-	-	-	-	-	-	-	-	-	446,664
Development and marketing	4,117	33,126	4,127	8	41,378	226,498	158,135	384,633	426,011	427,285
Employee expenses	49,907	316,547	23,548	43	390,045	84,225	21,680	105,905	495,950	380,242
Direct client services	895,330	846,217	364,757	124	2,106,428	-	-	-	2,106,428	2,196,778
Employee recruitment	-	-	-	-	-	16,905	-	16,905	16,905	9,318
In-kind expenses	-	-	-	-	-	-	140,949	140,949	140,949	45,769
Memberships	-	-	-	-	-	27,629	-	27,629	27,629	38,074
Miscellaneous	15,743	20,152	2,706	2	38,603	36,552	21,929	58,481	97,084	61,773
Occupancy costs	775,883	504,388	186,597	34,830	1,501,698	234,732	26,489	261,221	1,762,919	1,456,777
Office supplies	61,858	56,429	21,938	1,623	141,848	16,884	4,315	21,199	163,047	155,308
Postage	2,044	4,213	576	1	6,834	3,689	12,485	16,174	23,008	24,008
Professional services	-	-	-	-	-	68,137	-	68,137	68,137	74,634
Ranch operations	-	-	-	-	-	52,723	-	52,723	52,723	53,471
Training	11,715	32,689	3,608	7	48,019	20,860	514	21,374	69,393	93,453
Vehicle	182,347	8,653	6,366	1	197,367	32,280	9,233	41,513	238,880	230,700
Depreciation	396,294	634,071	317,036	64,992	1,412,393	126,814	45,970	172,784	1,585,177	1,356,565
	<u>\$ 12,720,528</u>	<u>\$ 8,791,248</u>	<u>\$ 2,072,366</u>	<u>\$ 102,623</u>	<u>\$ 23,686,765</u>	<u>\$ 4,674,309</u>	<u>\$ 1,545,362</u>	<u>\$ 6,219,671</u>	<u>\$ 29,906,436</u>	<u>\$ 28,596,672</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, 2023 AND 2022

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 56,011,273	\$( 52,980,462)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,585,177	1,356,565
(Gain)/loss on disposal of property and equipment	( 45,942)	( 28,279)
Realized (gain) losses on investments	8,172,736	( 17,435,801)
Unrealized (gain) losses on investments	( 52,822,787)	84,336,778
Decrease (increase) in assets:		
Accounts receivable	9,751	19,455
Pledges receivable	-	18,043
Supplies and prepaid expenses	59,964	( 55,275)
Accrued investment income	( 500,506)	( 748,527)
Increase (decrease) in liabilities:		
Accounts payable	663,796	( 286,180)
Accrued salaries	( 353,204)	368,911
Gift annuities	( 10,095)	( 282,833)
Net cash provided by operating activities	12,770,163	14,282,395
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net proceeds from (purchase) sale of investments	( 12,845,838)	( 3,088,120)
Proceeds from disposal of assets	( 49,198)	41,938
Purchase of capital items	( 9,987,436)	( 3,903,322)
Net cash used by investing activities	( 22,882,472)	( 6,949,504)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	( 10,112,309)	7,332,891
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	22,415,502	15,082,611
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 12,303,193	\$ 22,415,502
<b>SUPPLEMENTAL NONCASH DISCLOSURES</b>		
Right of use asset	1,164,098	-
Right of use liability	( 1,164,098)	-
	\$ -	\$ -

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

# METHODIST CHILDREN'S HOME

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

### 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 July 1, 2022, MCH adopted Accounting Standards Update ("ASU") No. 2016-02, *Leases (Accounting Standards Codification ("ASC") 842)*, which resulted in recording operating lease liabilities and right of use assets in the balance sheets. The operating and finance lease liabilities and right of use asset balances were \$1,164,098 and \$1,164,098 as of June 30, 2023, respectively. The balance is recorded based on the present value of the remaining minimum rental payments under the leasing standard for existing operating leases. The key estimates for these leases include the discount rate used to discount the unpaid lease payments to present value. MCH's leases generally do not include a readily determinable implicit rate, therefore, using a portfolio approach, MCH determined the collateralized incremental borrowing rate to discount the lease payments based on the information available at least commencement.

Leases include the noncancellable period of the lease plus any additional periods covered by either an option to extend the lease that MCH is reasonably certain to exercise, or an option to extend the lease controlled by the lessor. MCH has determined it is not reasonably certain to exercise renewal options, and as a result, the lease's initial stated term was used in the calculation of lease liabilities.

#### **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 (losses) of \$(8,172,736) and \$17,435,801 which are reflected in the statements of activities for the years ended June 30, 2023 and 2022 respectively. MCH had cash balances in excess of FDIC coverage at June 30, 2023 and 2022.

### 4. RECEIVABLES

The following is a breakdown of the accounts receivable balance for MCH as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Texas Comptroller Office	\$ 38,917	\$ 68,421
2Ingage	12,691	18,602
SSCC - Belong	3,246	-
St. Francis	4,067	-
Williamson County Juvenile	17,990	-
Miscellaneous receivables	<u>396</u>	<u>35</u>
Total receivables	<u>\$ 77,307</u>	<u>\$ 87,058</u>

### 5. PROPERTY AND EQUIPMENT

The components of fixed assets at cost are:

	<u>2023</u>	<u>2022</u>
Land and improvements	\$ 4,890,827	\$ 3,897,613
Buildings and building improvements	44,016,054	35,907,312
Equipment and furniture	2,409,742	2,254,562
Vehicles	<u>1,588,725</u>	<u>1,511,102</u>
	52,905,348	43,570,589
Less accumulated depreciation	<u>( 12,275,783)</u>	<u>( 11,438,423)</u>
Net property and equipment	<u>\$ 40,629,565</u>	<u>\$ 32,132,166</u>

Depreciation expense for the years ended June 30, 2023 and 2022, was \$1,585,177 and \$1,356,565, respectively.

### 6. 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 gives a 3% non-elective safe harbor contribution after one year of service that includes 1,000 hours of service. MCH also matches contributions up to 6% of the employee deduction. Contributions of MCH for the years ended June 30, 2023 and 2022 was \$987,512 and \$969,216, respectively.

## 7. INVESTMENTS

Investments at June 30, 2023, consisted of the following:

Investment Type	June 30, 2023	
	Cost Basis	Market Value
Invested cash	\$ 9,859,306	\$ 9,859,304
Alternative investments	120,238,460	115,989,135
Corporate stock	238,614,599	302,420,785
Fixed income securities	155,342,591	103,657,901
Beneficial interest in trusts	25,642,547	25,642,547
Mineral interests	32,942,690	32,942,690
Real estate	448,548	448,548
Accrued investment income	<u>500,506</u>	<u>500,506</u>
Total investments	\$ <u>583,589,247</u>	\$ <u>591,461,416</u>

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>

Investment income consisted of the following:

	2023	2022
Dividends and interest	\$ 20,515,272	\$ 15,728,391
Mineral rights proceeds	9,062,009	14,200,167
Receipts from trust funds administered by third party trustees	2,564,255	2,257,120
Real estate and other income	1,326,410	414,229
Realized and unrealized gains (losses)	<u>44,650,051</u>	<u>( 66,900,977)</u>
Total investment income (loss)	\$ <u>78,117,997</u>	\$ <u>( 34,301,070)</u>

Investment expenses consisted of the following:

	<u>2023</u>	<u>2022</u>
Investment advisors/custodian fees	\$ 1,754,438	\$ 2,145,928
Mineral interests	1,487,112	1,374,577
Real estate expenses	38,621	37,448
Annuity payments (recognition)	78,252	( 164,454)
Other expenses	<u>9,413</u>	<u>31,337</u>
Total investment expense	<u>\$ 3,367,836</u>	<u>\$ 3,424,836</u>

## 8. 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, 2023.

### *Cash and Invested Cash –*

The carrying amounts reported in the statements 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 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, 2023.

	Assets at Fair Value as of June 30, 2023			
	Level 1	Level 2	Level 3	Total
Cash and invested cash	\$ 9,859,304	\$ -	\$ -	\$ 9,859,304
Alternative investments	-	115,989,135	-	115,989,135
Accrued investment income	500,506	-	-	500,506
Corporate stock	302,420,785	-	-	302,420,785
Fixed income securities	103,657,901	-	-	103,657,901
Third party trusts	-	-	25,642,547	25,642,547
Mineral interests	-	-	32,942,690	32,942,690
Real estate and mortgage loans	-	448,548	-	448,548
	<u>\$ 416,438,496</u>	<u>\$ 116,437,683</u>	<u>\$ 58,585,237</u>	<u>\$ 591,461,416</u>

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 a summary of changes in the fair value of MCH's Level 3 assets for the year ended June 30, 2023.

Level 3 Assets Year Ended June 30, 2023		
	Beneficial Interest in Trusts	Mineral Interests
Balance, June 30, 2022	\$ 22,571,190	\$ 27,028,102
Purchases, sales, gains, losses (net)	<u>3,071,357</u>	<u>5,914,588</u>
Balance, June 30, 2023	<u>\$ 25,642,547</u>	<u>\$ 32,942,690</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>

## 9. 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, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Allocated gains	\$ 24,483,996	\$ 22,299,996
Appropriations to general fund	<u>( 22,261,385)</u>	<u>( 20,979,085)</u>
Net change	2,222,611	1,320,911
Balance at beginning of year	<u>8,566,077</u>	<u>7,245,166</u>
Defined income	<u>\$ 10,788,688</u>	<u>\$ 8,566,077</u>

## 10. 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, 2023:

	Without Donor Restriction		With Donor Restriction		Total
	Defined Income	Board Designated Endowment	Time and Purpose	In Perpetuity	
Net assets, June 30, 2022	\$ 8,566,077	\$ 521,238,849	\$ 11,605,015	\$ 10,767,311	\$ 552,177,252
Investment return, net	-	22,771,688	( 4,032,397)	-	18,739,291
Contributions	-	309,192	5,053,255	38,234	5,400,681
Appropriated	2,222,611	( 24,483,996)	615,504	-	( 21,645,881)
Realized gains (losses)	-	( 8,172,736)	-	-	( 8,172,736)
Unrealized gains (losses)	-	52,822,787	-	-	52,822,787
Other income (expense)	-	-	( 4,823)	4,823	-
Net assets, June 30, 2023	\$ <u>10,788,688</u>	\$ <u>564,485,784</u>	\$ <u>13,236,554</u>	\$ <u>10,810,368</u>	\$ <u>599,321,394</u>

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 Designated Endowment	Time and Purpose	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>

## 11. 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, 2023, MCH received \$0 in new gift annuities, made payments of \$88,347, and recognized the remaining portion of gift annuities of \$0.

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.

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,	
2024	\$ 88,481
2025	65,731
2026	65,731
2027	65,731
2028	65,699
2029 and beyond	<u>426,855</u>
Total	\$ <u>778,228</u>

## 12. LEASES

MCH determines whether a contract contains a lease at the inception of a contract by determining if the contract conveys the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. MCH leases certain buildings and equipment for varying periods. The incremental borrowing rate utilized to calculate the lease liabilities is based on the information available at commencement date, as most of the leases do not provide an implicit borrowing rate. The operating lease agreements do not contain any material guarantees or restrictive covenants.

As of June 30, 2023, MCH has ten operating leases, no finance leases, and no sublease activities. MCH leases properties in Texas and New Mexico, which serve as offices for its foster care and outreach programs. Short-term leases, defined as leases with initial terms of 12 months or less, are not reflected on the balance sheets. For the purposes of calculating lease liabilities, all lease and non-lease components, if applicable, are combined.

During 2023, MCH recognized rent expense associated with leases under ASC 842 as follows:

	For the year ended June 30, 2023
Operating lease cost:	
Fixed expense	\$ 432,118
Short-term lease cost	<u>81,912</u>
Total lease cost:	<u>\$ 514,030</u>

Supplemental information related to leases is as follows:

	As of June 30, 2023
<b>Supplemental information:</b>	
Weighted average remaining lease term:	
Operating leases	2.63 years
Weighted average discount rate:	
Operating leases	3.0%

The future payments due under operating leases as of June 30, 2023 are as follows:

<u>Years ending June 30,</u>	
2024	\$ 436,886
2025	302,506
2026	234,355
2027	128,648
2028	101,436
Thereafter	<u>5,265</u>
Total	<u>\$ 1,209,096</u>

## 13. 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, 2023, MCH used a 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 \$252,501 and \$176,259 was retained as of June 30, 2023, and 2022, respectively.

#### 14. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects MCH's financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>2023</u>	<u>2022</u>
Cash & cash equivalents	\$ 12,303,193	\$ 22,415,502
Receivables	77,307	87,058
Endowment	<u>591,461,416</u>	<u>533,465,021</u>
Financial assets, at year-end	603,841,916	555,967,581
Less:		
Investment in excess of board designated endowment, not appropriated for fiscal year 2023 and 2022, and those held in reserves	539,295,784	496,754,849
Assets restricted by donor	<u>24,046,922</u>	<u>22,372,326</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>40,499,210</u>	\$ <u>36,840,406</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.

#### 15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 27, 2023, the issuance date of this report. No other events were noted that require disclosure.