

METHODIST CHILDREN'S HOME

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2025 AND 2024**

WITH INDEPENDENT AUDITORS' REPORT

METHODIST CHILDREN'S HOME

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Methodist Children's Home

Opinion

We have audited the accompanying financial statements of Methodist Children's Home (MCH), a nonprofit organization, which comprise the statement of financial position as of June 30, 2025, 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 financial statements referred to above present fairly, in all material respects, the financial position of the MCH as of June 30, 2025, and the results of its operations 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). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MCH 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.

Other Matters

The financial statements of the MCH, as of and for the year ended June 30, 2024, were audited by other auditors, whose report, dated November 22, 2024, expressed an unmodified opinion on those statements.

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 MCH's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditors' 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 auditors' 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 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 MCH'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 MCH'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.

Atchley & Associates LLP

Austin, Texas

November 5, 2025

METHODIST CHILDREN'S HOME
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2025 AND 2024

	2025	2024
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,929,345	\$ 13,102,938
Receivables	80,050	76,953
Pledges, net	332,617	709,830
Supplies and prepaid expenses	117,975	68,388
Total current assets	10,459,987	13,958,109
RIGHT OF USE ASSET	923,940	1,109,494
PROPERTY & EQUIPMENT, NET OF DEPRECIATION	52,878,958	46,961,181
ENDOWMENT		
Invested cash	7,345,385	7,870,218
Alternative investments	102,407,557	124,480,072
Corporate stock	424,258,887	340,048,268
Fixed income securities	90,802,187	109,784,509
Beneficial interest in trusts	25,844,934	26,814,640
Mineral rights	52,208,565	45,404,903
Real estate	320,397	320,397
Accrued investment income	493,732	1,068,502
Total endowment	703,681,644	655,791,509
TOTAL ASSETS	\$ 767,944,529	\$ 717,820,293
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 851,121	\$ 1,119,592
Accrued salaries	1,778,562	1,690,167
Current portion of gift annuities payable	140,878	91,823
Right of use liability - current	422,642	366,426
Total current liabilities	3,193,203	3,268,008
LONG-TERM PORTION OF GIFT ANNUITIES PAYABLE	1,013,428	662,653
RIGHT OF USE LIABILITY - LONG TERM	512,881	743,068
Total liabilities	4,719,512	4,673,729

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

METHODIST CHILDREN'S HOME
STATEMENTS OF FINANCIAL POSITION - CONTINUED
JUNE 30, 2025 AND 2024

	2025	2024
NET ASSETS		
Without donor restriction		
General operating	\$ 707,235	\$ 444,169
Defined income	6,797,481	8,364,756
Board-designated endowment fund	674,402,465	628,394,751
Plant	52,878,958	46,961,181
Total net assets without donor restriction	734,786,139	684,164,857
With donor restriction		
Time and purpose	17,563,559	18,139,085
In perpetuity	10,875,319	10,842,622
Total net assets with donor restriction	28,438,878	28,981,707
Total net assets	763,225,017	713,146,564
 TOTAL LIABILITIES AND NET ASSETS	 \$ 767,944,529	 \$ 717,820,293

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

METHODIST CHILDREN'S HOME
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

	Without Donor Restriction	With Donor Restriction		Total
		Time and Purpose	In Perpetuity	
REVENUES				
Contributions and donations	\$ 4,401,552	\$ -	\$ -	\$ 4,401,552
Gifts and bequests	1,347,429	4,232,277	28,470	5,608,176
Program and grants	972,641	898	-	973,539
Investment return, net	71,204,607	2,490,847	-	73,695,454
Gain (loss) on disposal of assets	113,306	-	-	113,306
Other income	277,392	(4,227)	4,227	277,392
Net assets released from restrictions	7,295,321	(7,295,321)	-	-
Total revenues	85,612,248	(575,526)	32,697	85,069,419
EXPENSES				
Program services				
Residential services	15,026,831	-	-	15,026,831
Family outreach services	9,799,989	-	-	9,799,989
Transitional services	2,341,231	-	-	2,341,231
Emergency services	379,222	-	-	379,222
Total program services	27,547,273	-	-	27,547,273
Supporting services				
Management and general	5,315,374	-	-	5,315,374
Fundraising	2,128,319	-	-	2,128,319
Total support services	7,443,693	-	-	7,443,693
Total expenses	34,990,966	-	-	34,990,966
CHANGE IN NET ASSETS	50,621,282	(575,526)	32,697	50,078,453
NET ASSETS, BEGINNING	684,164,857	18,139,085	10,842,622	713,146,564
NET ASSETS, ENDING	\$ 734,786,139	\$ 17,563,559	\$ 10,875,319	\$ 763,225,017

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

METHODIST CHILDREN'S HOME
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024

	Without Donor Restriction	With Donor Restriction		Total
		Time and Purpose	In Perpetuity	
REVENUES				
Contributions and donations	\$ 4,459,275	\$ -	\$ -	\$ 4,459,275
Gifts and bequests	727,216	5,702,731	30,504	6,460,451
Program and grants	1,212,531	-	-	1,212,531
Investment return, net	91,382,175	-	-	91,382,175
Gain (loss) on disposal of assets	1,095,978	-	-	1,095,978
Other income	(3,223,209)	3,802,828	1,750	581,369
Net assets released from restrictions	4,603,028	(4,603,028)	-	-
Total revenues	100,256,994	4,902,531	32,254	105,191,779
EXPENSES				
Program services				
Residential services	13,545,433	-	-	13,545,433
Family outreach services	9,041,543	-	-	9,041,543
Transitional services	2,190,452	-	-	2,190,452
Emergency services	79,675	-	-	79,675
Total program services	24,857,103	-	-	24,857,103
Supporting services				
Management and general	5,831,759	-	-	5,831,759
Fundraising	1,760,000	-	-	1,760,000
Total support services	7,591,759	-	-	7,591,759
Total expenses	32,448,862	-	-	32,448,862
CHANGE IN NET ASSETS	67,808,132	4,902,531	32,254	72,742,917
NET ASSETS, BEGINNING	616,356,725	13,236,554	10,810,368	640,403,647
NET ASSETS, ENDING	\$ 684,164,857	\$ 18,139,085	\$ 10,842,622	\$ 713,146,564

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

METHODIST CHILDREN'S HOME
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2025

	Program Services				Supporting Services			Total	
	Residential Services	Family Outreach Services	Transitional Services	Emergency Services	Total Program Services	General & Administrative	Fundraising		Total Support Services
Salaries	\$ 8,057,904	\$ 5,128,788	\$ 893,067	\$ 94,955	\$ 14,174,714	\$ 3,121,916	\$ 1,044,888	\$ 4,166,804	\$ 18,341,518
Payroll taxes	616,918	384,251	70,054	6,999	1,078,222	189,794	77,082	266,876	1,345,098
Employee benefits	2,325,743	1,173,238	202,535	24,513	3,726,029	626,260	213,528	839,788	4,565,817
Contract services	198,272	7,801	891	4	206,968	28,125	-	28,125	235,093
Medical fees	37,613	300	10,859	-	48,772	-	-	-	48,772
Household	225,156	39,496	24,072	-	288,724	22,197	8,879	31,076	319,800
Insurance	157,592	114,697	17,490	1,968	291,747	120,680	23,368	144,048	435,795
Board and volunteer	-	-	-	-	-	19,434	-	19,434	19,434
Communication and technology	307,278	281,732	44,261	2,678	635,949	164,303	80,331	244,634	880,583
Development and marketing	790	29,875	176	-	30,841	16,822	370,517	387,339	418,180
Employee expenses	34,957	328,411	13,560	12,077	389,005	117,326	22,091	139,417	528,422
Direct client services	1,138,437	587,839	382,930	110,994	2,220,200	-	-	-	2,220,200
Employee recruitment	-	-	-	-	-	49,585	-	49,585	49,585
Contributed non-financial assets	-	-	-	-	-	-	112,860	112,860	112,860
Memberships	-	-	-	-	-	42,249	-	42,249	42,249
Miscellaneous	2,987	2,369	2,353	19	7,728	71,874	20,069	91,943	99,671
Occupancy costs	1,082,680	712,347	190,028	27,333	2,012,388	342,061	41,025	383,086	2,395,474
Office supplies	76,571	75,531	6,244	657	159,003	2,325	9,695	12,020	171,023
Postage	989	3,659	42	-	4,690	4,607	16,343	20,950	25,640
Professional services	-	-	-	-	-	59,476	-	59,476	59,476
Ranch operations	-	-	-	-	-	55,064	-	55,064	55,064
Training	8,499	40,909	2,274	5,153	56,835	51,274	2,083	53,357	110,192
Vehicle	199,614	1,017	36,530	880	238,041	32,456	21,200	53,656	291,697
Depreciation	554,831	887,729	443,865	90,992	1,977,417	177,546	64,360	241,906	2,219,323
	<u>\$ 15,026,831</u>	<u>\$ 9,799,989</u>	<u>\$ 2,341,231</u>	<u>\$ 379,222</u>	<u>\$ 27,547,273</u>	<u>\$ 5,315,374</u>	<u>\$ 2,128,319</u>	<u>\$ 7,443,693</u>	<u>\$ 34,990,966</u>

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

METHODIST CHILDREN'S HOME
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2024

	Program Services				Supporting Services			Total	
	Residential Services	Family Outreach Services	Transitional Services	Emergency Services	Total Program Services	General & Administrative	Fundraising		Total Support Services
Salaries	\$ 7,440,254	\$ 4,483,396	\$ 813,570	\$ 1,075	\$ 12,738,295	\$ 3,131,575	\$ 888,598	\$ 4,020,173	\$ 16,758,468
Payroll taxes	576,277	352,597	63,321	84	992,279	249,594	67,159	316,753	1,309,032
Employee benefits	1,753,495	1,039,462	201,711	248	2,994,916	1,002,702	178,161	1,180,863	4,175,779
Contract services	226,821	-	100	-	226,921	44,194	-	44,194	271,115
Medical fees	31,740	72	5,473	-	37,285	-	-	-	37,285
Household	239,516	31,346	11,662	12	282,536	24,308	2,431	26,739	309,275
Insurance	138,831	83,591	16,670	30	239,122	54,986	15,077	70,063	309,185
Board and volunteer	-	-	-	-	-	34,273	7,395	41,668	41,668
Communication and technology	360,995	252,947	54,833	91	668,866	142,930	67,284	210,214	879,080
Development and marketing	7,637	57,553	6,575	21	71,786	238,594	181,168	419,762	491,548
Employee expenses	47,271	357,476	25,977	77	430,801	98,326	24,181	122,507	553,308
Direct client services	1,034,908	927,450	351,494	24	2,313,876	-	-	-	2,313,876
Employee recruitment	-	-	-	-	-	85,016	-	85,016	85,016
Contributed non-financial assets	-	-	-	-	-	1,999	137,974	139,973	139,973
Memberships	-	-	-	-	-	31,042	-	31,042	31,042
Miscellaneous	5,653	9,428	1,462	3	16,546	60,577	29,010	89,587	106,133
Occupancy costs	899,393	543,522	203,523	194	1,646,632	265,879	63,799	329,678	1,976,310
Office supplies	96,113	74,257	30,336	28	200,734	18,722	5,998	24,720	225,454
Postage	2,108	4,252	500	2	6,862	5,065	13,001	18,066	24,928
Professional services	-	-	-	-	-	72,582	-	72,582	72,582
Ranch operations	-	-	-	-	-	32,527	-	32,527	32,527
Training	9,342	51,432	5,596	18	66,388	41,711	2,313	44,024	110,412
Vehicle	200,901	14,077	18,307	3	233,288	43,420	21,446	64,866	298,154
Depreciation	474,178	758,685	379,342	77,765	1,689,970	151,737	55,005	206,742	1,896,712
	<u>\$ 13,545,433</u>	<u>\$ 9,041,543</u>	<u>\$ 2,190,452</u>	<u>\$ 79,675</u>	<u>\$ 24,857,103</u>	<u>\$ 5,831,759</u>	<u>\$ 1,760,000</u>	<u>\$ 7,591,759</u>	<u>\$ 32,448,862</u>

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

METHODIST CHILDREN'S HOME
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 50,078,453	\$ 72,742,917
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	2,219,323	1,896,712
(Gain)/loss on disposal of property and equipment	(113,306)	(1,095,978)
Realized (gains) losses on investments	(21,192,608)	(16,675,406)
Unrealized (gains) losses on investments	(18,645,723)	(46,311,394)
Contributions restricted for endowment	(28,470)	(30,504)
Net change in right of use asset	11,583	-
Decrease (increase) in assets:		
Receivables	(3,097)	354
Pledges	377,213	(709,830)
Supplies and prepaid expenses	(49,587)	(4,378)
Accrued investment income	574,770	(1,068,502)
Increase (decrease) in liabilities:		
Accounts payable	(268,471)	(632,635)
Accrued salaries	88,395	88,778
Gift annuities	399,830	(23,752)
Net Change in Cash from Operating Activities	13,448,305	8,176,382
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(206,653,923)	(274,791)
Proceeds from sale of investments	198,027,349	-
Proceeds from disposal of assets	176,803	1,117,230
Purchase of property and equipment	(8,200,597)	(8,249,580)
Net Change in Cash from Investing Activities	(16,650,368)	(7,407,141)
CASH FLOWS FROM FINANCING ACTIVITIES		
Endowment contributions	28,470	30,504
Net Change in Cash from Financing Activities	28,470	30,504
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,173,593)	799,745
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,102,938	12,303,193
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 9,929,345	\$ 13,102,938

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

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

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.

A. 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 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.

B. Codification

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) is the single official source of authoritative, nongovernmental GAAP.

C. 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.

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

2. Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents

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

E. 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 as investment returns 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.

F. Fair Value Measurements

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

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

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

2. Summary of Significant Accounting Policies (Continued)

F. Fair Value Measurements - Continued

Level 2 - Inputs to the valuation methodology include:
Quoted market prices for similar assets or liabilities in active markets;
Quoted prices for identical assets or liabilities in inactive markets;
Inputs other than quoted prices that are observable for the asset or liability; and
Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full-term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2025.

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.

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

2. Summary of Significant Accounting Policies (Continued)

F. Fair Value Measurements - Continued

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

G. 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.

H. 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.

I. 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.

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

2. Summary of Significant Accounting Policies (Continued)

J. 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
Storage tanks	10-15
Equipment	5-10
Vehicles	5

K. 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.

L. Federal Income Tax

MCH is a nonprofit corporation, as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes. MCH adopted FASB ASC 740-10, *Accounting for Uncertainty in Income Tax*. That standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. MCH's federal exempt organization returns for the years ended June 30, 2021, and after, are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

2. Summary of Significant Accounting Policies (Continued)

M. Functional Expenses

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.

N. Subsequent Events

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

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 \$21,192,608 and \$16,675,406 which are reflected in the statements of activities for the years ended June 30, 2025 and 2024, respectively. MCH had cash balances in excess of FDIC coverage at June 30, 2025 of \$2,636,945.

4. Receivables

The following is a breakdown of the accounts receivable balance for MCH as of June 30, 2025 and 2024:

	2025	2024
Texas Comptroller Office - DFPS	\$ 51,850	\$ 35,240
4K4F	23,485	20,934
St. Francis	1,580	3,159
Empower	1,484	5,194
SSCC - Belong	1,454	5,360
Miscellaneous receivables	144	-
2Ingage	53	4,760
SSCC - OCOK	-	2,306
Total receivables	<u>\$ 80,050</u>	<u>\$ 76,953</u>

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

5. Property and Equipment

The components of fixed assets at cost are:

	2025	2024
Land and improvements	\$ 7,423,339	\$ 6,195,802
Buildings and building improvements	56,088,850	50,252,419
Equipment and furniture	2,833,737	2,487,707
Vehicles	1,799,468	1,698,830
Total fixed assets	68,145,394	60,634,758
Less: Accumulated depreciation	(15,266,436)	(13,673,577)
Net property and equipment	<u>\$ 52,878,958</u>	<u>\$ 46,961,181</u>

Depreciation expense for the years ended June 30, 2025 and 2024, was \$2,219,323 and \$1,896,712, 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, 2025 and 2024, was \$1,085,806 and \$968,480, respectively.

7. Investments

Investments at June 30, 2025 and 2024, consisted of the following:

Investment Type	June 30, 2025		June 30, 2024	
	Cost Basis	Market Value	Cost Basis	Market Value
Invested cash	\$ 7,345,385	\$ 7,345,385	\$ 7,870,218	\$ 7,870,218
Alternative investments	102,407,557	102,407,557	124,793,631	124,480,072
Corporate stock	217,659,686	424,258,887	253,596,974	340,048,268
Fixed income securities	94,764,753	90,802,187	150,338,156	109,784,509
Beneficial interest in trusts	25,844,934	25,844,934	26,814,640	26,814,640
Mineral rights	52,208,565	52,208,565	45,404,903	45,404,903
Real estate	320,397	320,397	320,397	320,397
Accrued investment income	493,732	493,732	1,068,502	1,068,502
Total investments	<u>\$ 501,045,009</u>	<u>\$ 703,681,644</u>	<u>\$ 610,207,421</u>	<u>\$ 655,791,509</u>

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

7. Investments (Continued)

Investment return, net, for the years ended June 30, 2025 and 2024, consisted of the following:

	2025	2024
Dividends and interest	\$ 22,747,996	\$ 15,284,708
Mineral rights proceeds	12,466,365	13,476,779
Receipts from trust funds administered by third party trustees	2,584,493	2,681,464
Real estate and other income	-	361,730
Realized gains (losses) on investments	21,192,608	16,675,406
Unrealized gains (losses) on investments	18,645,723	46,311,394
	<hr/>	<hr/>
Total investment income	77,637,185	94,791,481
	<hr/>	<hr/>
Investment advisors / custodian fees	1,758,283	1,631,926
Mineral interests	1,611,158	1,685,413
Real estate expenses	73	14,760
Annuity payments (recognition)	527,819	66,322
Other expenses	44,398	10,885
	<hr/>	<hr/>
Total investment expenses	3,941,731	3,409,306
	<hr/>	<hr/>
Investment return, net	<u>\$ 73,695,454</u>	<u>\$ 91,382,175</u>

8. Fair Value Measurement

The following table sets forth by level, within the fair value hierarchy, MCH's assets at fair value as of June 30, 2025.

	Level 1	Level 2	Level 3	Total
Invested cash	\$ 7,345,385	\$ -	\$ -	\$ 7,345,385
Alternative investments	-	102,407,557	-	102,407,557
Corporate stock	424,258,887	-	-	424,258,887
Fixed income securities	90,802,187	-	-	90,802,187
Beneficial interest in trusts	-	-	25,844,934	25,844,934
Mineral rights	-	-	52,208,565	52,208,565
Real estate	-	320,397	-	320,397
Accrued investment income	493,732	-	-	493,732
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>\$ 522,900,191</u>	<u>\$ 102,727,954</u>	<u>\$ 78,053,499</u>	<u>\$ 703,681,644</u>

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

8. Fair Value Measurement (Continued)

The following table sets forth by level, within the fair value hierarchy, MCH's assets at fair value as of June 30, 2024.

	Level 1	Level 2	Level 3	Total
Invested cash	\$ 7,870,218	\$ -	\$ -	\$ 7,870,218
Alternative investments	-	124,480,072	-	124,480,072
Corporate stock	340,048,268	-	-	340,048,268
Fixed income securities	109,784,509	-	-	109,784,509
Beneficial interest in trusts	-	-	26,814,640	26,814,640
Mineral rights	-	-	45,404,903	45,404,903
Real estate	-	320,397	-	320,397
Accrued investment income	1,068,502	-	-	1,068,502
	<u>\$ 458,771,497</u>	<u>\$ 124,800,469</u>	<u>\$ 72,219,543</u>	<u>\$ 655,791,509</u>

The following table sets forth a summary of changes in the fair value of MCH's Level 3 assets for the years ended June 30, 2025 and 2024.

	Beneficial Interest in Trusts	Mineral Interests
Balance, June 30, 2023	<u>\$ 25,642,547</u>	<u>\$ 32,942,690</u>
Purchases, sales, gains, losses (net)	<u>1,172,093</u>	<u>12,462,213</u>
Balance, June 30, 2024	26,814,640	45,404,903
Purchases, sales, gains, losses (net)	<u>(969,706)</u>	<u>6,803,662</u>
Balance, June 30, 2025	<u>\$ 25,844,934</u>	<u>\$ 52,208,565</u>

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

9. Appropriations 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, 2025 and 2024, are as follows:

	2025	2024
Appropriations from endowment fund	\$ 26,215,992	\$ 25,190,003
Appropriations to general fund	(27,783,267)	(27,613,935)
Net change	(1,567,275)	(2,423,932)
Balance at beginning of year	8,364,756	10,788,688
Total investment income	\$ 6,797,481	\$ 8,364,756

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.

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

10. Net Endowment Assets (Continued)

Interpretation of Relevant Law - Continued

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.

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

10. Net Endowment Assets (Continued)

The following is an analysis of the activity in the endowment account for the year ended June 30, 2025:

	Without Donor Restriction		With Donor Restriction		Total
	Defined Income	Designated Endowment	Time and Purpose	In Perpetuity	
Net Assets,					
June 30, 2024	\$ 8,364,756	\$ 628,394,751	\$ 18,139,085	\$ 10,842,622	\$ 665,741,214
Investment return, net	-	71,455,012	2,490,847	-	73,945,859
Contributions	-	768,694	4,233,175	28,470	5,030,339
Appropriated	(1,567,275)	(26,215,992)	-	-	(27,783,267)
Other income (expense)	-	-	(4,227)	4,227	-
Release from restrictions	-	-	(7,295,321)	-	(7,295,321)
Net Assets,					
June 30, 2025	<u>\$ 6,797,481</u>	<u>\$ 674,402,465</u>	<u>\$ 17,563,559</u>	<u>\$ 10,875,319</u>	<u>\$ 709,638,824</u>

The following is an analysis of the activity in the endowment account for the year ended June 30, 2024:

	Without Donor Restriction		With Donor Restriction		Total
	Defined Income	Designated Endowment	Time and Purpose	In Perpetuity	
Net Assets,					
June 30, 2023	\$10,788,688	\$ 564,485,784	\$ 13,236,554	\$ 10,810,368	\$ 599,321,394
Investment return, net	-	88,424,820	-	-	88,424,820
Contributions	-	674,151	5,702,731	30,504	6,407,386
Appropriated	(2,423,932)	(25,190,004)	-	-	(27,613,936)
Other income (expense)	-	-	3,802,828	1,750	3,804,578
Release from restrictions	-	-	(4,603,028)	-	(4,603,028)
Net Assets,					
June 30, 2024	<u>\$ 8,364,756</u>	<u>\$ 628,394,751</u>	<u>\$ 18,139,085</u>	<u>\$ 10,842,622</u>	<u>\$ 665,741,214</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 years ended June 30, 2025 and 2024, MCH received \$527,819 and \$24,251, respectively, in new gift annuities, made payments of \$127,989 and \$90,075, respectively, and recognized the remaining portion of gift annuities of \$0 and \$0, respectively.

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

11. Gift Annuities (Continued)

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,		
2026	\$	140,878
2027		151,667
2028		151,667
2029		151,667
2030		151,667
Thereafter		406,760
Total	\$	1,154,306

12. Operating 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, 2025 and 2024, 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.

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

12. Operating Leases (Continued)

During 2025 and 2024, MCH recognized rent expense associated with leases under ASC 842 as follows:

	2025	2024
Operating lease cost:		
Fixed expense	\$ 386,578	\$ 436,805
Operational cost share	79,092	82,312
	<u>\$ 465,670</u>	<u>\$ 519,117</u>
Current lease liability	\$ 422,642	\$ 366,426
Long - term lease liability	512,881	743,068
	<u>\$ 935,523</u>	<u>\$ 1,109,494</u>

Supplemental information related to leases is as follows:

Weighted average remaining lease term		
Operating leases	2.71 years	1.58 years
Weighted average discount rate:		
Operating leases	3.97%	3.30%

The future payments due under operating leases as of June 30, 2025, are as follows:

Years ending June 30,	
2026	\$ 416,272
2027	250,871
2028	173,403
2029	66,638
2030	8,400
Thereafter	1,400
Total	<u>\$ 916,984</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, 2025, 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 \$173,682 and \$105,732 was retained as of June 30, 2025 and 2024, respectively.

METHODIST CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

14. Available Resources and Liquidity

The following reflects MCH's financial assets as of June 30, 2025 and 2024, reduced by amounts not available for general use because of contractual, board-imposed restrictions, or donor-imposed restrictions within one year of the balance sheet date.

	2025	2024
Financial assets at year-end		
Cash and cash equivalents	\$ 9,929,345	\$ 13,102,938
Receivables	80,050	76,953
Pledges, net	332,617	709,830
Endowment	703,681,644	655,791,509
 Total financial assets at year-end	 714,023,656	 669,681,230
 Less amounts not available for general expenditures in the next twelve months		
Investment in excess of board designated endowment, not appropriated for fiscal years 2025 and 2024, and those held in reserves	649,026,774	602,042,955
Less assets with donor restrictions	28,438,878	28,981,707
	677,465,652	631,024,662
 Financial assets available to meet cash needs for general expenditures over the next twelve months	 \$ 36,558,004	 \$ 38,656,568

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.