

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018 AND 2017

DRAFT

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position as of December 31, 2018 and 2017	2
Statement of Activities for the Year Ended December 31, 2018	3
Statement of Activities for the Year Ended December 31, 2017	4
Statement of Functional Expenses for the Year Ended December 31, 2018	5
Statement of Functional Expenses for the Year Ended December 31, 2017	6
Statements of Cash Flows for the Years Ended December 31, 2018 and 2017	7
Notes to Financial Statements	8



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
of The United Methodist Children's Home of the North Georgia Conference, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of The United Methodist Children's Home of the North Georgia Conference, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United Methodist Children's Home of the North Georgia Conference, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Atlanta, Georgia
_____, 2019

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 1,483,053	\$ 1,031,723
Grants receivable	460,227	452,495
Due from lessor - tenant allowance	-	1,789,254
Pledges receivable	150,000	-
Prepaid expenses and other assets	388,824	326,981
Promissory notes receivable	431,280	308,480
Investments	70,181,331	75,797,473
Cash restricted for long term purposes	34,099	34,099
Property and equipment, net	153,658	157,555
Total assets	\$ 73,282,472	\$ 79,898,060
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 250,948	\$ 391,243
Accrued payroll	88,642	67,024
Accrued pension payable	46,531	54,853
Accrued compensated absences	3,489	22,504
Deferred rent liability	484,542	127,812
Total liabilities	874,152	663,436
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Board designated for endowment	57,426,495	62,456,802
Available for operations	1,158,985	2,998,270
Total net assets without donor restrictions	58,585,480	65,455,072
With donor restrictions:		
Purpose restrictions	3,992,185	3,948,897
Perpetual in nature	9,830,655	9,830,655
Total net assets with donor restrictions	13,822,840	13,779,552
Total net assets	72,408,320	79,234,624
Total liabilities and net assets	\$ 73,282,472	\$ 79,898,060

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

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating:			
Revenue and support:			
Government fees and grants	\$ 4,031,433	\$ -	\$ 4,031,433
Contributions	1,705,168	400,000	2,105,168
Income from endowments and trusts	488,244	-	488,244
Net assets released from restrictions	<u>60,000</u>	<u>(60,000)</u>	<u>-</u>
Total revenue and support before appropriation	6,284,845	340,000	6,624,845
Appropriation of endowment earnings	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
Total revenue, gains and support	<u>9,284,845</u>	<u>340,000</u>	<u>9,624,845</u>
Expenses:			
Program services:			
Youth residential	1,651,630	-	1,651,630
Family housing and preservation services	238,402	-	238,402
Family foster care	<u>5,067,728</u>	<u>-</u>	<u>5,067,728</u>
Total program services	6,957,760	-	6,957,760
Supporting services:			
Management and general	1,122,065	-	1,122,065
Fundraising	<u>1,248,257</u>	<u>-</u>	<u>1,248,257</u>
Total supporting services	<u>2,370,322</u>	<u>-</u>	<u>2,370,322</u>
Total expenses	<u>9,328,082</u>	<u>-</u>	<u>9,328,082</u>
Increase (decrease) in net assets from operating activities	<u>(43,237)</u>	<u>340,000</u>	<u>296,763</u>
Non-operating:			
Rental income and other	4,741	-	4,741
Gain on sale of property and other	115,283	-	115,283
Investment income (loss), net	(3,946,379)	(296,712)	(4,243,091)
Appropriation of endowment earnings	<u>(3,000,000)</u>	<u>-</u>	<u>(3,000,000)</u>
Decrease in net assets from non-operating activities	<u>(6,826,355)</u>	<u>(296,712)</u>	<u>(7,123,067)</u>
Increase (decrease) in net assets	(6,869,592)	43,288	(6,826,304)
Net assets, beginning of year	<u>65,455,072</u>	<u>13,779,552</u>	<u>79,234,624</u>
Net assets, end of year	<u>\$ 58,585,480</u>	<u>\$ 13,822,840</u>	<u>\$ 72,408,320</u>

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

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Operating:			
Revenue and support:			
Government fees and grants	\$ 3,654,022	\$ -	\$ 3,654,022
Contributions	1,673,957	308,480	1,982,437
Income from endowments and trusts	367,879	-	367,879
Net assets released from restrictions	228,374	(228,374)	-
Total revenue and support before appropriation	5,924,232	80,106	6,004,338
Appropriation of endowment earnings	4,317,731	-	4,317,731
Total revenue, gains and support	10,241,963	80,106	10,322,069
Expenses:			
Program services:			
Youth residential	2,194,912	-	2,194,912
Family housing and preservation services	682,173	-	682,173
Family foster care	3,949,514	-	3,949,514
Total program services	6,826,599	-	6,826,599
Supporting services:			
Management and general	822,379	-	822,379
Fundraising	1,397,938	-	1,397,938
Total supporting services	2,220,317	-	2,220,317
Total expenses	9,046,916	-	9,046,916
Increase in net assets from operating activities	1,195,047	80,106	1,275,153
Non-operating:			
Rental income and other	25,003	-	25,003
Gain on sale of property and other	35,504,089	-	35,504,089
Investment income, net	6,090,580	718,880	6,809,460
Impairment of land value - endowment	-	(413,200)	(413,200)
Appropriation of endowment earnings	(4,317,731)	-	(4,317,731)
Increase in net assets from non-operating activities	37,301,941	305,680	37,607,621
Increase in net assets	38,496,988	385,786	38,882,774
Net assets, beginning of year	26,958,084	13,393,766	40,351,850
Net assets, end of year	\$ 65,455,072	\$ 13,779,552	\$ 79,234,624

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

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services				Supporting Services			Total Expenses
	Youth Residential	Family Housing and Preservation Services	Family Foster Care	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Compensation	\$ 758,241	\$ 90,433	\$ 1,835,788	\$ 2,684,462	\$ 391,362	\$ 644,614	\$ 1,035,976	\$ 3,720,438
Employee benefits	249,960	29,813	605,183	884,956	98,462	111,867	210,329	1,095,285
Training	8,584	756	23,262	32,602	2,448	2,385	4,833	37,435
Occupancy costs	391,056	96,541	421,362	908,959	333,958	739	334,697	1,243,656
Office supplies and expenses	32,011	3,824	105,182	141,017	48,671	75,494	124,165	265,182
Insurance	7,302	1,019	21,435	29,756	19,637	-	19,637	49,393
Outside services	80,154	10,998	223,513	314,665	205,090	230,796	435,886	750,551
Program support, materials, and supplies	91,442	2,393	1,684,589	1,778,424	469	434	903	1,779,327
Bad debt expense	-	-	25,369	25,369	-	-	-	25,369
Transportation and vehicles	19,663	1,781	104,466	125,910	5,709	23,851	29,560	155,470
Fundraising and promotion	4,470	617	12,875	17,962	11,888	158,077	169,965	187,927
Total expenses before depreciation	<u>1,642,883</u>	<u>238,175</u>	<u>5,063,024</u>	<u>6,944,082</u>	<u>1,117,694</u>	<u>1,248,257</u>	<u>2,365,951</u>	<u>9,310,033</u>
Depreciation	8,747	227	4,704	13,678	4,371	-	4,371	18,049
Total expenses	<u>\$ 1,651,630</u>	<u>\$ 238,402</u>	<u>\$ 5,067,728</u>	<u>\$ 6,957,760</u>	<u>\$ 1,122,065</u>	<u>\$ 1,248,257</u>	<u>\$ 2,370,322</u>	<u>\$ 9,328,082</u>
Percentages	<u>18%</u>	<u>3%</u>	<u>54%</u>	<u>75%</u>	<u>12%</u>	<u>13%</u>	<u>25%</u>	<u>100%</u>

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

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services				Supporting Services			Total Expenses
	Youth Residential	Family Housing and Preservation Services	Family Foster Care	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Compensation	\$ 924,143	\$ 284,785	\$ 1,403,330	\$ 2,612,258	\$ 207,469	\$ 638,220	\$ 845,689	\$ 3,457,947
Employee benefits	271,414	83,639	412,147	767,200	60,932	187,440	248,372	1,015,572
Training	4,134	544	17,248	21,926	274	719	993	22,919
Occupancy costs	473,599	167,303	203,632	844,534	199,154	105,602	304,756	1,149,290
Office supplies and expenses	70,709	16,891	118,082	205,682	68,233	73,603	141,836	347,518
Insurance	18,902	5,627	32,342	56,871	635	6,877	7,512	64,383
Outside services	184,898	37,205	225,772	447,875	188,977	137,342	326,319	774,194
Program support, materials, and supplies	123,907	16,667	1,418,962	1,559,536	3,725	12,033	15,758	1,575,294
Bad debt expense	-	-	-	-	37,571	-	37,571	37,571
Transportation and vehicles	23,417	8,182	76,300	107,899	7,222	28,031	35,253	143,152
Fundraising and promotion	7,727	3,020	10,244	20,991	14,332	174,617	188,949	209,940
Total expenses before depreciation	<u>2,102,850</u>	<u>623,863</u>	<u>3,918,059</u>	<u>6,644,772</u>	<u>788,524</u>	<u>1,364,484</u>	<u>2,153,008</u>	<u>8,797,780</u>
Depreciation	92,062	58,310	31,455	181,827	33,855	33,454	67,309	249,136
Total expenses	<u>\$ 2,194,912</u>	<u>\$ 682,173</u>	<u>\$ 3,949,514</u>	<u>\$ 6,826,599</u>	<u>\$ 822,379</u>	<u>\$ 1,397,938</u>	<u>\$ 2,220,317</u>	<u>\$ 9,046,916</u>
Percentages	<u>24%</u>	<u>8%</u>	<u>44%</u>	<u>76%</u>	<u>9%</u>	<u>15%</u>	<u>24%</u>	<u>100%</u>

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

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (6,826,302)	\$ 38,882,774
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	18,049	249,136
Gain on sale of property and other	(115,283)	(35,504,089)
Realized (gain) loss on sale of investments	185,117	(231,933)
Unrealized (gain) loss on investments	7,854,242	(4,604,628)
Impairment of land value - endowment	-	413,200
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable	(7,732)	(110,325)
Due from lessor - tenant allowance	1,789,254	(1,789,254)
Pledges receivable	(150,000)	-
Prepaid expenses and other assets	(61,843)	(208,472)
Increase (decrease) in:		
Accounts payable	(140,295)	192,795
Accrued payroll	21,618	(47,930)
Accrued pension payable	(8,322)	(17,793)
Accrued compensated absences	(19,015)	(177,141)
Deferred rent liability	356,730	127,812
Total adjustments	9,722,520	(41,708,622)
Net cash provided by (used in) operating activities	2,896,218	(2,825,848)
Cash flows from investing activities:		
Issuance of note receivable	-	(308,480)
Payments received on note receivable	67,200	-
Purchase of investments	(6,515,525)	(110,026,423)
Proceeds from sale of investments	4,093,806	72,625,120
Purchase of property and equipment	(90,369)	(89,836)
Proceeds from sale of property	-	39,977,043
Cash restricted for long term purposes	-	(25,000)
Net cash provided by (used in) investing activities	(2,444,888)	2,152,424
Net increase (decrease) in cash and cash equivalents	451,330	(673,424)
Cash and cash equivalents, beginning of year	1,031,723	1,705,147
Cash and cash equivalents, end of year	\$ 1,483,053	\$ 1,031,723
Non-cash investing activities:		
Issuance of note receivable for sale of property	\$ 190,000	\$ -

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

THE UNITED METHODIST CHILDREN’S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies

The United Methodist Children’s Home of the North Georgia Conference, Inc. (UMCH or the Organization) was established in 1871 in Norcross, Georgia to care for children orphaned during the Civil War and has evolved to serve children and families in a “continuum of care” model. UMCH envisions a world where “all children are raised in a loving, compassionate and nurturing home.” The Organization works every day toward its mission “to restore children and families from trauma through Jesus Christ.” Since 1973, UMCH has cared for over 6,000 children in safe and loving foster care homes; it provides safe housing for at-risk young adults and prepares them to make positive life decisions and become productive, independent, citizens; and it strengthens and preserves at-risk families through safe housing and support services. Today, UMCH serves over 240 children and adults a day in 40 counties across North Georgia, and it delivered over 56,000 days of care in 2017. Financial resources are generated from state partnerships, private philanthropy and earned income. For more information visit www.umchildrenshome.org.

In August 2017, the Organization sold its 77 acre campus, including all building and land, with the exception of the Chapel and surrounding small parcel, to the City of Decatur, Georgia for approximately \$40,000,000. Proceeds of the sale will help the Organization to greatly expand local, community-based ministries in communities across North Georgia. The Organization’s headquarters relocated to an office complex in Tucker, Georgia. The Organization entered into a long term rental agreement for their new headquarters which included an arrangement with the landlord to refund the Organization for construction costs on the build out of the office space totaling \$1,789,254. This receivable is included in the accompanying financial statements as of December 31, 2017 and was subsequently collected in March 2018.

In 2019, UMCH introduced a new name that reflects both its tremendous growth and unlimited potential, while preserving its deep foundations in The United Methodist Church. The Organization will begin doing business as Wellroot Family Services. This new name was borne out of the same steadfast focus on our mission and was the result of an intense process of research and planning. To be well-rooted is to be firmly planted, to feel stable, and to feel taken care of and secure. To be well-rooted is to have the support and love you need to become the person God intends for you to become. As Wellroot Family Services, the Organization will continue to grow with a name that embodies its commitment to the children, young adults and families it serves together as an agency of the North Georgia Conference.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies – Continued

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) based upon the existence or absence of donor-imposed restrictions, as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Items that affect (i.e., increase or decrease) this net asset category include contributions without restrictions, investment income, and fundraising event income and related expenses associated with the Organization's core activities. At times, the governing board may earmark net assets for a specified purpose. Since this is not a donor-imposed restriction, the designated asset is classified and reported as part of net assets without donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor, or certain grantor, imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. 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.

Basis of Accounting

The Organization maintains its accounts on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). All significant assets, liabilities, income, and expenses are recorded when an event or obligation occurs rather than when cash is received or disbursed.

Income Taxes

UMCH is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended, and is classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provisions for federal and state income taxes have been recorded in the accompanying financial statements. The Organization believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements. The Organization's income tax returns are subject to examination by the appropriate regulatory authorities for all open years, which include the last three years filed.

THE UNITED METHODIST CHILDREN’S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies – Continued

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices with all gains and losses reported in the statement of activities.

Advertising Expense

Advertising costs are expensed as incurred.

Property and Equipment

UMCH follows the practice of capitalizing all expenditures for property and equipment in excess of \$3,000. Property and equipment are stated at cost or estimated fair value at time of donation. Expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful life of assets are capitalized. Property and equipment are depreciated using the straight-line method over the estimated useful lives. As of December 31, 2018, the estimated useful lives of property and equipment were as follows:

Buildings and improvements	10 - 50 years
Grounds improvements	5 - 20 years
Furniture and equipment	5 - 10 years
Vehicles	3 - 5 years

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated Equipment, Material, Supplies and Services

All non-cash gifts (other than personal services) are recognized at fair market value, except where due to variation or volume of goods received (i.e. Christmas gifts) the cost of determining the fair market value exceeds the benefit received from such valuation. There were no significant donated equipment or materials for the year ended December 31, 2018 and 2017.

There were no donated services for the year ended December 31, 2018 and 2017. UMCH received significant amounts of volunteer services during 2018 and 2017 that are not recognized in these financial statements because they do not meet the criteria for recognition under the professional standards’ criteria noted above.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies – Continued

Estimates

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

Grants and Contracts

For the years ended December 31, 2018 and 2017, UMCH received approximately 60% and 61% of its funding (excluding investment income, gain on sale of property and other), through the State of Georgia Department of Human Services. Receivables arise from reimbursements owed through these government contracts. The Organization's ability to collect amounts due is affected by the acceptance of performance-based outcomes, which meet contract requirements. Grants receivable as of December 31, 2018 and 2017 consist of governmental grant and contract amounts due. Management evaluates the collectability of accounts receivable based on its judgment and experience with grantors. Based on management's analysis, grants receivable as of December 31, 2018 and 2017 are fully collectible; therefore, no allowance for doubtful accounts is considered necessary.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. The Statements of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among various programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. The expenses that are allocated include training, occupancy costs, office supplies, insurance, outside services, program material and supplies, transportation and vehicles, fundraising, promotion and depreciation which are allocated based on estimates of how the expenses support the programs and supporting services, as well as compensation and employee benefits which are allocated based on estimates of time and effort.

Cash and Cash Equivalents and Concentration of Credit Risk

Cash and cash equivalents consist of demand deposits accounts. For purposes of the statements of cash flows, UMCH considers all short-term, interest-bearing deposits with original maturities of three months or less to be cash equivalents.

The demand deposit balances in the Organization's bank accounts, as reflected in the bank's records, are insured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured demand deposit and certificate of deposit balances as of December 31, 2018 and 2017 totaled \$1,268,114 and \$807,424, respectively.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies – Continued

Cash and Cash Equivalents and Concentration of Credit Risk – Continued

The balances in the Organization's investment accounts, as reflected in the financial institution's records, are insured by the Securities Investors Protection Corporation up to \$500,000 in securities protection that includes protection for up to \$250,000 in non-invested cash. Based on the strength of the financial institutions, management believes the credit risk related to these balances is not significant.

New Accounting Policies

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements for Not-For-Profit Entities*, which improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The guidance requires retrospective application. The Organization adopted this guidance for the year ended December 31, 2018. Accordingly, the financial statements as of and for the year ended December 31, 2017 have been modified to conform to this new presentation. This new accounting policy did not affect net assets for either 2018 or 2017.

In June 2015, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions and Grants Received and Contributions and Grants Made*. The standard is effective for fiscal years beginning after December 15, 2018 and requires retrospective application. Early adoption is permitted. The Organization elected to early adopt this standard for the year ended December 31, 2018.

Reclassification of Amounts

Certain amounts previously reported have been reclassified to conform to the current year financial statement presentation. Such reclassifications had no effect on changes in net assets.

Subsequent Events

Subsequent events have been evaluated by management through _____, 2019, which is the date that the financial statements were available to be issued. There were no significant subsequent events to disclose.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

2. Liquidity and Availability of Financial Assets

The Organization is substantially supported by contributions without donor restrictions. However, the Organization sometimes receives contributions with donor restrictions for various programs. Because a donor's restrictions require funds to be used in a particular manner or in a future period, the Organization maintains those funds with donor restrictions so that they are available to meet those responsibilities as they are required to be met. Accordingly, these financial assets are not available to the Organization for its general expenditures. The Organization considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures may be incurred for program or administrative purposes.

The Organization's financial assets as of December 31 (reduced by amounts that are not available for general use because of contractual, donor-imposed, or internal restrictions) available within one year after this date to satisfy liabilities at this date and for future general expenditure are as follows:

Cash and cash equivalents	\$	1,483,053
Grants receivable		460,227
Pledges receivable		150,000
Promissory notes receivable		431,280
Investments		70,181,331
Total financial assets available		72,705,891
Less:		
Pledges receivable due past one year		(50,000)
Promissory notes receivable due past one year		(373,734)
Purpose restricted for scholarships		(3,159,038)
Perpetual restriction for endowment		(9,830,655)
Financial assets available to meet cash needs for general expenditures within one year	\$	59,292,464

Restricted contributions of \$584,668 were included in financial assets available to meet cash needs for general expenditures within one year. The Organization has an endowment fund as described in Note 8. The Organization maintains an annual spending policy not to exceed 5% bases on a three-year rolling average of the Organization's investment portfolio. However, the Board may appropriate additional funds from the accumulated earnings at its discretion. In addition to financial assets available to meet general expenditures over the next twelve months, the Organization utilizes an operating budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor- restricted resources.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

3. Pledges Receivable

Pledges receivable consisted of multi-year grants from foundations totaling \$150,000 as of December 31, 2018, with \$100,000 and \$50,000 respectively, expected to be collected in 2019 and 2020. Management expects the pledges receivable as of December 31, 2018 to be fully collectible, and therefore, no allowance for doubtful accounts has been established.

4. Promissory Notes Receivable

During 2017, the Organization received two promissory notes receivable related to a trust. The note receivables have an interest rate of 5%. The Organization will receive monthly principal and interest payments through the maturity dates of November 24, 2023 and March 24, 2024. The outstanding balances of the notes receivable as of December 31, 2018 and 2017 totaled \$248,479 and \$308,480, respectively.

During 2018, the Organization sold property for \$190,000. Under this agreement, the Organization will receive 237 monthly principal payments of \$800 principal and one final payments of \$400. The note receivable matures in January 2023. The note is noninterest bearing. The outstanding balances of the notes receivable as of December 31, 2018 totaled \$182,800.

Principal maturities of the notes receivable subsequent to December 31, 2018 are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 57,546
2020	59,998
2021	62,577
2022	65,287
2023	51,072
Thereafter	<u>134,800</u>
	<u>\$ 431,280</u>

5. Investments

UMCH classifies its investment assets using a hierarchy of inputs to fair value measurements in accordance with professional standards, as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

5. Investments – Continued

Level 2 - Inputs to the valuation methodology that are derived principally from or corroborated by observable market data:

- Quoted 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 assets or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are unobservable and significant to the overall fair value measurement.

The asset's 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.

Most of the land held for investment as of December 31, 2017 consists of approximately 90 acres of undeveloped land located in Gwinnett County, Georgia and 78 acres of undeveloped land located in Etowah County, Alabama. The Organization had verbal agreements to sell these various land parcels in 2018. The land values were adjusted to fair value as of December 31, 2017 and the impairment in values is reflected in the accompanying statement of activities. The hedge funds and alternative funds fair value are measured by the net assets per share method as of December 31, 2018 and 2017.

Investments, stated at fair value on a recurring basis in accordance with professional standards, consist of the following as of December 31, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents and money market funds	\$ 7,143	\$ -	\$ 7,143	\$ -
Fixed income	22,722,339	22,722,339	-	-
Equities	38,267,379	38,267,379	-	-
Mutual funds	157,855	157,855	-	-
Land	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
	61,157,716	<u>\$ 61,147,573</u>	<u>\$ 7,143</u>	<u>\$ 3,000</u>
Investments measured at net asset value	<u>9,023,615</u>			
Total investments at fair value	<u>\$ 70,181,331</u>			

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

5. Investments – Continued

Investments, stated at fair value on a recurring basis in accordance with professional standards, consist of the following as of December 31, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents and money				
market funds	\$ 13,708	\$ -	\$ 13,708	\$ -
Fixed income	21,849,604	21,849,604	-	-
Equities	44,519,320	44,519,320	-	-
Mutual funds	185,623	185,623	-	-
Land	1,241,900	-	-	1,241,900
	<u>67,810,155</u>	<u>\$ 66,554,547</u>	<u>\$ 13,708</u>	<u>\$ 1,241,900</u>
Investments measured at net asset value	<u>7,987,318</u>			
Total investments at fair value	<u>\$ 75,797,473</u>			

Investment income, net for the year ended December 31, 2018 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Interest and dividends	\$ 3,539,331	\$ 256,938	\$ 3,796,269
Realized gain	186,864	10,830	197,694
Unrealized losses	(7,319,458)	(534,867)	(7,854,325)
Investment expenses	(353,116)	(29,613)	(382,729)
	<u>\$ (3,946,379)</u>	<u>\$ (296,712)</u>	<u>\$ (4,243,091)</u>

Investment income, net for the year ended December 31, 2017 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Interest and dividends	\$ 1,964,516	\$ 162,920	\$ 2,127,436
Realized gain	207,231	24,702	231,933
Unrealized gain	4,055,690	548,938	4,604,628
Investment expenses	(136,857)	(17,680)	(154,537)
	<u>\$ 6,090,580</u>	<u>\$ 718,880</u>	<u>\$ 6,809,460</u>

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

5. Investments – Continued

The Level 3 changes are as follows for the years ended December 31, 2018 and 2017:

	2018
Beginning balance at January 1, 2018:	\$ 1,241,900
Additions of land	3,000
Sale of investments	(1,235,900)
Impairment in land value	(6,000)
Ending balance at December 31, 2018	\$ 3,000
	2017
Beginning balance at January 1, 2017:	\$ 1,807,182
Sale of investments	(60,982)
Impairment in land value - endowment	(504,300)
Ending balance at December 31, 2017	\$ 1,241,900

6. Property and Equipment, Net

Components of property and equipment consist of the following as of December 31:

	2018	2017
Land	\$ -	\$ 23,025
Buildings and building improvements	132,697	143,569
Vehicles	92,196	92,196
	224,893	258,790
Less accumulated depreciation	(71,235)	(101,235)
Property and equipment, net	\$ 153,658	\$ 157,555

Depreciation expense for the years ended December 31, 2018 and 2017 was \$18,049 and \$249,136, respectively.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

7. Net Assets With Donor Restrictions

Net assets with donor restrictions, temporary and perpetual in nature, consist of contributions received by UMCH subject to donor imposed restrictions. This net asset class consists of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 3,159,038	\$ 3,373,975
Program specific	542,356	181,427
Capital improvement	33,732	76,435
District offices	8,580	8,580
Time restricted for future operations	<u>248,479</u>	<u>308,480</u>
Total purpose and time restricted net assets	3,992,185	3,948,897
Total net assets with donor restrictions, perpetual in nature	<u>9,830,655</u>	<u>9,830,655</u>
Total net assets with donor restrictions	<u>\$ 13,822,840</u>	<u>\$ 13,779,552</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors for the year ended December 31:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ -	\$ 1,578
Program specific	-	73,932
Capital improvement	-	152,864
Time restriction	<u>60,000</u>	<u>-</u>
Total	<u>\$ 60,000</u>	<u>\$ 228,374</u>

Net assets with donor restrictions, perpetual in nature, are comprised of contributions received from donors with stipulations that those contributions be invested in perpetuity and that only the return generated be expended. Investment return generated by these funds based on donor instructions, is classified as with donor restrictions or without donor restrictions until appropriated for expenditure for the intended purpose. The donors' intentions are for the income from the investments to be used to fund scholarships, program specific needs, and capital improvements. The net assets with donor restrictions, perpetual in nature, totaled \$9,830,655 as of December 31, 2018 and 2017.

THE UNITED METHODIST CHILDREN’S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

8. Endowment Funds

The Uniform Management of Institutional Fund Act (UPMIFA) provides standards for charities to use in managing their investment and spending from endowments. UPMIFA applies to funds held by charitable entities. The duty of the charity’s managers is to comply with donor intent with respect to gift funds as expressed in the gift instrument. The managers must comply with the duty of the loyalty and must manage and invest the funds “in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances.” Costs incurred in the management of the funds must be appropriate and reasonable. Funds may be pooled for management and investment.

Decisions about individual assets must be made as part of an overall investment strategy and investments must be diversified. The institution, subject to the intent of the donor expressed in a gift instrument, “may appropriate for expenditure or accumulate as much of an endowment fund as the institution determines prudent for the uses, benefits, purposes, and duration for which the endowment fund is established.”

From time to time, the fair value of invested assets associated with individual donor restricted endowment funds fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. As of December 31, 2018, and 2017, deficiencies of this nature involved one fund. The earnings on this fund are without donor restrictions. In accordance with GAAP, deficiencies are reported in net assets without donor restrictions as of December 31 are as follows:

	2018	2017
Original gift amount	\$ 524,703	\$ 524,703
Fair market value	459,946	433,558
Deficient amount	\$ (64,757)	\$ (91,145)

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

8. Endowment Funds – Continued

Endowment net assets by type of fund and related changes consisted of the following as of December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets, beginning of year	\$ 62,456,802	\$ 3,544,115	\$ 9,830,655	\$ 75,831,572
Additions	126,735	-	-	126,735
Reimbursement of tenant allowance	1,789,254	-	-	1,789,254
Interest and dividends, net	3,186,298	227,325	-	3,413,623
Net depreciation of investments	(7,132,594)	(524,037)	-	(7,656,631)
Appropriation of endowment earnings	<u>(3,000,000)</u>	<u>-</u>	<u>-</u>	<u>(3,000,000)</u>
Endowment net assets, end of year	<u>\$ 57,426,495</u>	<u>\$ 3,247,403</u>	<u>\$ 9,830,655</u>	<u>\$ 70,504,553</u>

Endowment net assets by type of fund and related changes consisted of the following as of December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets, beginning of year	\$ 20,675,863	\$ 3,062,189	\$ 10,243,855	\$ 33,981,907
Additions	40,008,090	-	-	40,008,090
Interest and dividends, net	1,827,659	145,240	-	1,972,899
Net appreciation of investments	4,262,921	573,640	-	4,836,561
Impairment of land value	-	-	(413,200)	(413,200)
Appropriation of endowment earnings	<u>(2,528,477)</u>	<u>(236,954)</u>	<u>-</u>	<u>(2,765,431)</u>
Advance for tenant allowance	<u>(1,789,254)</u>	<u>-</u>	<u>-</u>	<u>(1,789,254)</u>
Endowment net assets, end of year	<u>\$ 62,456,802</u>	<u>\$ 3,544,115</u>	<u>\$ 9,830,655</u>	<u>\$ 75,831,572</u>

The Board of Trustees of UMCH manages the endowed funds with the following objectives listed in priority order:

- Preserve the endowment in order to provide perpetual financial assistance to the Organization;

THE UNITED METHODIST CHILDREN’S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

8. Endowment Funds – Continued

- Hold an investment mix that will generate adequate cash to partially fund planned disbursements and activities authorized in the Organization’s annual budget;
- Earn an adequate rate of return on the endowment to increase its principal balance after cash disbursements at a rate that exceeds the rate of inflation average over a five-year period;
- Invest with a view of intermediate to long-term total return.

The mission is to develop a spending policy which preserves generational equity, and to implement an investment program that generates sufficient return to support spending in perpetuity. The Board of Trustees believes this satisfies Georgia legal requirements. The endowment spending policy has been set not to exceed 5% of market value (without prior board approval) of the endowment per year using a three-year rolling average of market values. A three-year rolling average is used to smooth out fluctuations in the market value and decrease volatility in the budget process.

UMCH believes investment returns are volatile, and that a diversified portfolio of well-selected investments will be most successful, in the long term, in meeting the endowment’s goals, with the lowest level of risk. Through use of multiple investment managers and asset classes, a portfolio can be created which yields superior returns with reduced volatility. The Organization has a target allocation of 75% equity and 25% fixed income. The Organization’s endowment funds are managed by one financial institution with established investment policies and goals.

9. Lease Commitments

UMCH has two non-cancelable operating leases including office space for the main headquarters and office equipment that expire over future years. Future minimum lease payments under the non-cancelable operating leases as of December 31, 2018 are:

For the Year Ending December 31:

2019	\$	872,021
2020		896,304
2021		920,701
2022		941,640
2023		966,927
Thereafter		<u>1,417,883</u>
Total minimum lease payments	\$	<u><u>6,015,476</u></u>

During the year ended December 31, 2018, total rent expense for operating leases was \$1,111,271 which included office equipment, housing for youth residential and family housing programs, remote offices, and office space for the main headquarters. During the

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

9. Lease Commitments – Continued

year ended December 31, 2017, total rent expense for operating leases was \$484,640 which included office equipment, youth residential housing and remote offices.

In accordance with the office space lease agreement for the main headquarters, the Organization received seven months of free rent and four months of reduced rent in 2017 and 2018. A deferred rent liability totaling \$484,542 and \$127,812 as of December 31, 2018 and 2017, respectively, is included in the statement of financial position and will be amortized over the term of the lease.

10. Contingencies

UMCH is subject to legal actions arising in the ordinary course of business. In management's opinion, the Organization has adequate legal defenses and insurance coverage with respect to such actions and their outcome will not materially affect the Organization's operations or financial position.

Certain state funded programs are potentially subject to audit. Such agencies have the authority to determine liabilities as well as to limit, suspend, or terminate the state programs. Since the Organization does not expect claims to arise as a result of such audits, no provision for liabilities, if any, has been provided in the financial statements.

11. Retirement Plan

UMCH sponsors a retirement plan for its employees in the form of a defined contribution plan. The plan covers all eligible employees who meet the requirements set forth in the plan. All eligible employees receive a one hundred percent (100%) match of the employee's contribution up to six percent (6%) of the participating employee's salary. The Organization also may provide a discretionary contribution to the Plan, which is determined by applying a Board approved percentage to participant annual compensation. The contribution to the plan was \$189,823 and \$192,446 for the years ended December 31, 2018 and 2017, respectively.

12. Post-Retirement Benefits

In previous years, the Organization funded a post-retirement plan to certain eligible long-term employees. A contingent liability was set up for this plan totaling \$165,150. During 2017, management determined all obligations have been met under the plan. Therefore, the liability has been adjusted and a related gain has been recognized in the accompanying statement of activities.