

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020

**THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES**

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position as of June 30, 2020	2
Statement of Activities for the Year Ended June 30, 2020	3
Statement of Functional Expenses for the Year Ended June 30, 2020	4
Statement of Cash Flows for the Year Ended June 30, 2020	5
Notes to Financial Statements	6



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
of The United Methodist Children's Home of the North Georgia Conference
d/b/a Wellroot Family Services:

Report on the Financial Statements

We have audited the accompanying financial statements of The United Methodist Children's Home of the North Georgia Conference d/b/a Wellroot Family Services (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020 and the related statements of activities, functional expenses, and cash flows for the year then ended June 30, 2020, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 d/b/a Wellroot Family Services as of June 30, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Atlanta, Georgia
October 19, 2020

Brooks, McGinnis & Company, LLC

**THE UNITED METHODIST CHILDREN'S HOME
 OF THE NORTH GEORGIA CONFERENCE
 D/B/A WELLROOT FAMILY SERVICES
 STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2020**

ASSETS

Cash and cash equivalents	\$	191,675
Grants receivable		625,305
Prepaid expenses and other assets		321,810
Promissory notes receivable		358,437
Investments		75,637,996
Cash restricted for long term purposes		34,099
Property and equipment, net		<u>40,143</u>
Total assets	\$	<u><u>77,209,465</u></u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$	224,281
Accrued payroll		68,667
Accrued pension payable		71,684
Deferred rent liability		<u>371,272</u>
Total liabilities		<u>735,904</u>
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Board designated for endowment		61,451,717
Available for operations		<u>856,764</u>
Total net assets without donor restrictions		<u>62,308,481</u>
With donor restrictions:		
Purpose restrictions		4,334,425
Perpetual in nature		<u>9,830,655</u>
Total net assets with donor restrictions		<u>14,165,080</u>
Total net assets		<u>76,473,561</u>
Total liabilities and net assets	\$	<u><u>77,209,465</u></u>

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

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating:			
Revenue and support:			
Government fees and grants	\$ 3,567,340	\$ -	\$ 3,567,340
Contributions	1,402,136	281,398	1,683,534
Income from endowments and trusts	473,232	-	473,232
Net assets released from restrictions	299,157	(299,157)	-
Total revenue and support before appropriation	5,741,865	(17,759)	5,724,106
Appropriation of endowment earnings	3,000,000	-	3,000,000
Total revenue, gains and support	8,741,865	(17,759)	8,724,106
Expenses:			
Program services:			
Youth services	1,532,442	-	1,532,442
Family housing and preservation services	237,976	-	237,976
Family foster care	4,767,189	-	4,767,189
Total program services	6,537,607	-	6,537,607
Supporting services:			
Management and general	1,398,628	-	1,398,628
Fundraising	844,485	-	844,485
Total supporting services	2,243,113	-	2,243,113
Total expenses	8,780,720	-	8,780,720
Decrease in net assets from operating activities	(38,855)	(17,759)	(56,614)
Non-operating:			
Rental income and other	42,724	-	42,724
Investment income, net	981,035	72,006	1,053,041
Loss on disposal of asset	(61,290)	-	(61,290)
Appropriation of endowment earnings	(3,000,000)	-	(3,000,000)
Increase (decrease) in net assets from non-operating activities	(2,037,531)	72,006	(1,965,525)
Increase (decrease) in net assets	(2,076,386)	54,247	(2,022,139)
Net assets, beginning of period	64,384,867	14,110,833	78,495,700
Net assets, end of period	\$ 62,308,481	\$ 14,165,080	\$ 76,473,561

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

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services				Supporting Services			Total Expenses
	Youth Services	Family Housing and Preservation Services	Family Foster Care	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Compensation	\$ 799,861	\$ 84,912	\$ 1,770,874	\$ 2,655,647	\$ 514,097	\$ 390,736	\$ 904,833	\$ 3,560,480
Employee benefits	239,792	25,457	530,894	796,143	154,123	117,139	271,262	1,067,405
Training	4,846	1,388	21,216	27,450	560	-	560	28,010
Occupancy costs	306,708	109,638	386,807	803,153	372,843	100,010	472,853	1,276,006
Office supplies and expenses	22,589	3,445	79,651	105,685	73,995	32,899	106,894	212,579
Insurance	7,050	1,095	22,260	30,405	30,105	-	30,105	60,510
Outside services	54,974	8,518	187,523	251,015	234,222	73,084	307,306	558,321
Program support, materials, and supplies	62,249	1,548	1,638,647	1,702,444	158	150	308	1,702,752
Bad debt expense	-	-	22,510	22,510	-	-	-	22,510
Transportation and vehicles	21,585	1,464	85,340	108,389	4,467	2,850	7,317	115,706
Fundraising and promotion	1,991	309	17,415	19,715	8,503	127,617	136,120	155,835
Total expenses before depreciation	<u>1,521,645</u>	<u>237,774</u>	<u>4,763,137</u>	<u>6,522,556</u>	<u>1,393,073</u>	<u>844,485</u>	<u>2,237,558</u>	<u>8,760,114</u>
Depreciation	<u>10,797</u>	<u>202</u>	<u>4,052</u>	<u>15,051</u>	<u>5,555</u>	<u>-</u>	<u>5,555</u>	<u>20,606</u>
Total expenses	<u>\$ 1,532,442</u>	<u>\$ 237,976</u>	<u>\$ 4,767,189</u>	<u>\$ 6,537,607</u>	<u>\$ 1,398,628</u>	<u>\$ 844,485</u>	<u>\$ 2,243,113</u>	<u>\$ 8,780,720</u>
Percentages	<u>17%</u>	<u>3%</u>	<u>54%</u>	<u>74%</u>	<u>16%</u>	<u>10%</u>	<u>26%</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
D/B/A WELLROOT FAMILY SERVICES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

Cash flows from operating activities:	
Decrease in net assets	\$ <u>(2,022,139)</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation expense	20,606
Loss on disposal of assets	61,290
Realized loss on sale of investments	410,772
Unrealized loss on investments	1,515,586
Changes in assets and liabilities:	
(Increase) decrease in:	
Grants receivable	(30,983)
Pledges receivable	100,000
Prepaid expenses and other assets	910
Increase (decrease) in:	
Accounts payable	(38,614)
Accrued payroll	5,098
Accrued pension payable	(7,899)
Deferred rent liability	(70,498)
Total adjustments	<u>1,966,268</u>
Net cash used in operating activities	<u>(55,871)</u>
Cash flows from investing activities:	
Payments received on notes receivable	58,757
Purchase of investments	(4,713,764)
Proceeds from sale of investments	<u>4,792,898</u>
Net cash provided by investing activities	<u>137,891</u>
Net increase in cash and cash equivalents	82,020
Cash and cash equivalents, beginning of period	<u>143,754</u>
Cash and cash equivalents, end of period	<u>\$ <u>225,774</u></u>

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

**THE UNITED METHODIST CHILDREN’S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Nature of Organization and Significant Accounting Policies

The United Methodist Children’s Home of the North Georgia Conference, d/b/a Wellroot Family Services (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 55,000 days of care in 2020. Financial resources are generated from state partnerships, private philanthropy and earned income. For more information visit www.umchildrenshome.org .

In 2019, UMCH introduces a new name that reflects both its tremendous growth and unlimited potential, while preserving its deep foundations in The United Methodist Church. The Organization is doing business as Wellroot Family Services. This new name is borne out of the same steadfast focus of the Organization’s mission and is the result of an intense process of research and planning. The Organization believes to be well-rooted is to be firmly planted, to feel stable, and to feel taken care of and secure as well as to have the support and love to become the person God intended. 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 with the North Georgia Conference of the United Methodist Church.

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.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1. Nature of Organization and Significant Accounting Policies – Continued

Financial Statement Presentation – Continued

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.

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.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1. Nature of Organization and Significant Accounting Policies – Continued

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 June 30, 2020, the estimated useful lives of vehicles are three to five 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 June 30, 2020.

There were no donated services for the year ended June 30, 2020. UMCH received significant amounts of volunteer services during the year that are not recognized in these financial statements because they do not meet the criteria for recognition under the professional standards' criteria noted above.

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.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1. Nature of Organization and Significant Accounting Policies – Continued

Grants and Contracts

For the year ended June 30, 2020, UMCH received approximately 63% of its funding (excluding investment income) 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 June 30, 2020 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 June 30, 2020 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 statement of activities. The statement of functional expenses presents 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 balances as of June 30, 2020 totaled \$133,237.

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.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1. Nature of Organization and Significant Accounting Policies – Continued

Subsequent Events

Subsequent events have been evaluated by management through October 19, 2020, which is the date that the financial statements were available to be issued. There were no significant subsequent events to disclose.

New Accounting Policy

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective for fiscal years beginning after December 15, 2018. The guidance requires retrospective application. The adoption of this new accounting policy had no effect on net assets.

2. Liquidity and Availability of Financial Assets

The Organization is substantially supported by government fees and grants and 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 UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

2. Liquidity and Availability of Financial Assets – Continued

The Organization's financial assets as of June 30 (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	\$	191,675
Grants receivable		625,305
Promissory notes receivable		358,437
Investments		75,637,996
Cash restricted for long term purposes (endowed)		34,099
Total financial assets available		76,847,512
Less:		
Promissory notes receivable due past one year		(293,803)
Purpose restricted for scholarships		(3,493,109)
Perpetual restriction for endowment		(9,830,655)
Financial assets available to meet cash needs for general expenditures within one year	\$	63,229,945

Restricted contributions of \$651,279 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 7. The Organization maintains an annual spending policy not to exceed 5% based 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.

Beginning in early calendar year 2020, the global coronavirus pandemic threatened to deeply harm global growth. This has affected the U.S. and global equity markets, as well as consumer confidence, and the broad U.S. and global stock markets have experienced extreme volatility. It is uncertain how this downturn in the financial markets and consumer confidence may affect the operations, investments, funding and contribution income of nonprofit organizations in the near future. The Organization depends heavily on contributions to support its operations. The ability of contributors to continue giving may be dependent on current and future overall economic conditions. While the Organization believes it has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on many interdependent factors.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

3. 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 June 30, 2020 totaled \$190,037.

During 2018, the Organization sold property for \$190,000. Under this agreement, the note is noninterest bearing for the first five years at which time the note will bear interest at 5%. Monthly principal payments will be received the first five years then monthly principal and interest payments through the maturity date of January 2038. The outstanding balance of the note receivable as of June 30, 2020 totaled \$168,400.

Principal maturities of the notes receivable subsequent to June 30, 2020 are as follows:

Year Ending June 30,	
2021	\$ 64,634
2022	63,915
2023	63,506
2024	26,112
2025	2,648
Thereafter	137,622
	\$ 358,437

4. 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.

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 UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

4. Investments – Continued

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.

The hedge funds and alternative funds fair value are measured by the net assets per share method as of June 30, 2020.

Investments, stated at fair value on a recurring basis in accordance with professional standards, consist of the following as of June 30, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents and money				
market funds	\$ 7,865	\$ -	\$ 7,865	\$ -
Fixed income	21,590,293	21,590,293	-	-
Equities	43,968,162	43,968,162	-	-
Mutual funds	138,460	138,460	-	-
Land	1,500	-	-	1,500
	<u>65,706,280</u>	<u>\$ 65,696,915</u>	<u>\$ 7,865</u>	<u>\$ 1,500</u>
Investments measured at net asset value	<u>9,931,716</u>			
Total investments at fair value	<u>\$ 75,637,996</u>			

Investment income, net for the year ended June 30, 2020 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Interest and dividends	\$ 2,776,864	\$ 202,535	\$ 2,979,399
Realized loss	(18,739)	(2,645)	(21,384)
Unrealized loss	(1,416,608)	(98,978)	(1,515,586)
Investment expenses	(360,482)	(28,906)	(389,388)
	<u>\$ 981,035</u>	<u>\$ 72,006</u>	<u>\$ 1,053,041</u>

There were no changes in the balance of Level 3 investments for the year ended June 30, 2020.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

5. Property and Equipment, Net

Components of property and equipment consist of the following as of June 30:

Vehicles	\$	66,470
		66,470
Less accumulated depreciation		(26,327)
Property and equipment, net	\$	40,143

Depreciation expense for the year ended June 30, 2020 was \$20,606.

6. 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 June 30:

Scholarships	\$	3,493,109
Program specific		593,591
Capital improvement		49,108
District offices		8,580
Time restricted for future operations		190,037
Total purpose and time restricted net assets		4,334,425
Total net assets with donor restrictions, perpetual in nature		9,830,655
Total net assets with donor restrictions	\$	14,165,080

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 June 30, 2020:

Program specific	\$	250,000
Time restriction		49,157
Total	\$	299,157

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

6. Net Assets With Donor Restrictions – Continued

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 June 30, 2020.

7. 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."

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

7. Endowment Funds – Continued

Endowment net assets by type of fund and related changes consisted of the following as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets, beginning of period	\$ 63,465,152	\$ 3,651,012	\$ 9,830,655	\$ 76,946,819
Additions	5,530	-	-	5,530
Interest and dividends, net	2,776,864	202,535	-	2,979,399
Net depreciation of investments	(1,795,829)	(130,529)	-	(1,926,358)
Appropriation of endowment earnings	(3,000,000)	-	-	(3,000,000)
Endowment net assets, end of period	<u>\$ 61,451,717</u>	<u>\$ 3,723,018</u>	<u>\$ 9,830,655</u>	<u>\$ 75,005,390</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;
- 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.

THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

7. Endowment Funds – Continued

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.

8. 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 June 30, 2020 are:

For the Year Ending June 30:	
2021	\$ 936,252
2022	930,510
2023	956,084
2024	982,349
2025	924,592
Total minimum lease payments	\$ 4,729,787

During the year ended June 30, 2020, total rent expense for operating leases was \$1,174,099 which included office equipment, housing for youth residential and family housing programs, remote offices, and office space for the main headquarters.

In accordance with the office space lease agreement for the main headquarters, the Organization received several months of free and reduced rent for the first year of the lease agreement. A deferred rent liability totaling \$371,272 as of June 30, 2020 is included in the statement of financial position and will be amortized over the term of the lease.

9. 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.

**THE UNITED METHODIST CHILDREN'S HOME
OF THE NORTH GEORGIA CONFERENCE
D/B/A WELLROOT FAMILY SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

9. Contingencies – Continued

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.

10. Retirement Plan

UMCH sponsors a retirement plan for its employees in the form of a 401(k) 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 \$190,226 for the year ended June 30, 2020. The plan was amended effective February 1, 2019 to become a plan governed by Employee Retirement Income Security Act (ERISA).