

**UNITED METHODIST CHILDREN'S HOME
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
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DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
United Methodist Children's Home and Subsidiaries
Montgomery, Alabama

Opinion

We have audited the accompanying consolidated financial statements of the United Methodist Children's Home and Subsidiaries (UMCH), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the UMCH as of December 31, 2021, and the results of their operations and their 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. 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 the UMCH 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.

Prior Period Financial Statements

The financial statements of the UMCH as of December 31, 2020 were audited by other auditors whose report dated May 6, 2021 expressed an unmodified opinion on those consolidated financial statements.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements, including omissions, 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 the UMCH'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the UMCH'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 29 through 31 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Warren Averett, LLC

Montgomery, Alabama
May 19, 2022

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

ASSETS		
	2021	2020
Cash and cash equivalents	\$ 4,643,604	\$ 510,027
Accounts receivable	1,408,077	1,231,134
Investment securities	36,340,126	38,872,632
Interests in perpetual trusts	4,011,916	3,765,350
Other assets	297,117	357,135
Property and equipment, net	5,168,955	4,308,724
TOTAL ASSETS	\$ 51,869,795	\$ 49,045,002
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 110,500	\$ 358,611
Contribution payable	-	43,547
Accrued compensation	134,853	144,423
Notes payable	769,241	1,589,180
Deferred rent	46,011	76,120
Total liabilities	1,060,605	2,211,881
NET ASSETS		
Without donor restrictions	36,985,355	33,804,623
With donor restrictions	13,823,835	13,028,498
Total net assets	50,809,190	46,833,121
TOTAL LIABILITIES AND NET ASSETS	\$ 51,869,795	\$ 49,045,002

See notes to the consolidated financial statements.

**UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE			
Direct public support:			
Annual giving	\$ 3,974,093	\$ 25,000	\$ 3,999,093
Estate gifts and trusts	1,541,880	-	1,541,880
Program service revenue	2,118,694	-	2,118,694
Grant income	184,179	-	184,179
Investment return, net	3,070,638	968,907	4,039,545
Other income	41,592	-	41,592
Gain on disposition of assets	36,900	-	36,900
Gain on perpetual trusts held by others	-	246,566	246,566
Gain on other assets	-	838	838
Net assets released from restrictions	445,974	(445,974)	-
TOTAL SUPPORT AND REVENUE	11,413,950	795,337	12,209,287
EXPENSES			
Program services:			
Residential	3,070,615	-	3,070,615
Foster care and family preservation services	2,621,086	-	2,621,086
Total program services	5,691,701	-	5,691,701
Supporting services:			
Management and general	1,635,799	-	1,635,799
Fundraising	905,718	-	905,718
Total supporting services	2,541,517	-	2,541,517
TOTAL EXPENSES	8,233,218	-	8,233,218
CHANGE IN NET ASSETS	3,180,732	795,337	3,976,069
Net assets at beginning of year	33,804,623	13,028,498	46,833,121
NET ASSETS AT END OF YEAR	\$ 36,985,355	\$ 13,823,835	\$ 50,809,190

See notes to the consolidated financial statements.

**UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE			
Direct public support:			
Annual giving	\$ 3,206,852	\$ 995,242	\$ 4,202,094
Estate gifts and trusts	121,519	-	121,519
Program service revenue	2,134,553	-	2,134,553
Grant income	317,986	-	317,986
Investment return, net	4,925,717	1,403,559	6,329,276
Other income	59,558	-	59,558
Gain on disposition of assets	151,010	-	151,010
Gain on perpetual trusts held by others	-	370,056	370,056
Gain on other assets	-	3,026	3,026
Net assets released from restrictions	313,677	(313,677)	-
TOTAL SUPPORT AND REVENUE	11,230,872	2,458,206	13,689,078
EXPENSES			
Program services:			
Residential	3,218,222	-	3,218,222
Foster care and family preservation services	2,713,759	-	2,713,759
Total program services	5,931,981	-	5,931,981
Supporting services:			
Management and general	1,397,167	-	1,397,167
Fundraising	794,633	-	794,633
Total supporting services	2,191,800	-	2,191,800
TOTAL EXPENSES	8,123,781	-	8,123,781
CHANGE IN NET ASSETS	3,107,091	2,458,206	5,565,297
Net assets at beginning of year	30,697,532	10,570,292	41,267,824
NET ASSETS AT END OF YEAR	\$ 33,804,623	\$ 13,028,498	\$ 46,833,121

See notes to the consolidated financial statements.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Residential</u>	<u>Foster Care and Family Preservation Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and wages	\$ 1,431,378	\$ 1,459,865	\$ 612,890	\$ 407,729	\$ 3,911,862
Other employee benefits	235,595	249,494	123,459	61,214	669,762
Payroll taxes	92,529	97,511	51,245	28,717	270,002
Accounting and agent fees	8,634	3,011	97,462	15,765	124,872
Consulting and legal fees	1,050	-	6,632	-	7,682
Supplies	40,264	16,336	27,071	6,105	89,776
Data and telephone	47,700	44,390	20,664	6,169	118,923
Postage and shipping	675	781	4,332	42,815	48,603
Occupancy	106,600	90,404	267,013	23,735	487,752
Equipment rental and maintenance	32,736	20,065	144,658	25,300	222,759
Printing and publications	14,478	1,483	53,760	235,277	304,998
Travel	37,669	74,661	15,527	16,473	144,330
Dues, memberships and meetings	3,109	6,736	18,047	4,302	32,194
Insurance	169,840	114,721	24,653	12,135	321,349
Staff training	6,154	11,727	4,923	-	22,804
Bank charges and interest expense	-	-	87,533	-	87,533
Residents' other needs	482,525	91,813	-	-	574,338
Household supplies	65,729	468	-	-	66,197
Foster parent fees	-	262,368	-	-	262,368
Contribution	-	-	55,000	-	55,000
Depreciation	291,816	74,201	20,930	19,982	406,929
Accreditation	2,134	1,051	-	-	3,185
Total	\$ 3,070,615	\$ 2,621,086	\$ 1,635,799	\$ 905,718	\$ 8,233,218

See notes to the consolidated financial statements.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Program Services		Supporting Services		Total
	Residential	Foster Care and Family Preservation Services	Management and General	Fundraising	
Salaries and wages	\$ 1,420,370	\$ 1,584,047	\$ 648,267	\$ 323,616	\$ 3,976,300
Other employee benefits	192,180	244,534	104,814	36,199	577,727
Payroll taxes	99,597	115,778	48,687	24,957	289,019
Accounting and agent fees	-	-	38,000	-	38,000
Consulting and legal fees	-	-	15,166	-	15,166
Supplies	69,845	31,509	22,999	2,929	127,282
Data and telephone	47,560	51,281	17,283	5,891	122,015
Postage and shipping	1,405	1,169	10,208	27,385	40,167
Occupancy	351,786	87,328	61,623	28,941	529,678
Equipment rental and maintenance	34,030	22,261	175,036	19,408	250,735
Printing and publications	11,609	1,619	34,476	271,358	319,062
Travel	49,019	87,049	9,501	14,927	160,496
Dues, memberships and meetings	2,797	4,363	16,360	2,926	26,446
Insurance	163,621	108,604	64,394	15,765	352,384
Staff training	3,255	15,545	3,979	1,890	24,669
Bank charges and interest expense	-	-	31,314	-	31,314
Residents' other needs	367,147	88,021	84	-	455,252
Household supplies	45,479	1,422	-	-	46,901
Foster parent fees	-	202,788	-	-	202,788
Contribution	170,000	8,905	67,863	-	246,768
Depreciation	188,255	57,403	27,113	18,441	291,212
Accreditation	267	133	-	-	400
Total	\$ 3,218,222	\$ 2,713,759	\$ 1,397,167	\$ 794,633	\$ 8,123,781

See notes to the consolidated financial statements.

**UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,976,069	\$ 5,565,297
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	406,929	291,212
In-kind contribution of property and equipment	(971,390)	170,929
Gain on disposition of property and equipment	(36,900)	(151,010)
Unrealized and realized gain on investment securities	(4,039,545)	(5,769,847)
Change in value of other assets and trusts	(186,548)	(488,775)
Net change in operating assets and liabilities:		
Accounts receivable	(176,943)	(253,022)
Accounts payable and accrued compensation	(257,681)	(104,068)
Contribution payable	(43,547)	(87,095)
Deferred revenue	(30,109)	(19,504)
Net cash used in operating activities	<u>(1,359,665)</u>	<u>(845,883)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(307,586)	(759,945)
Proceeds from sale of property and equipment	48,716	16,590
Purchase of investment securities	(39,921,747)	(35,923,819)
Proceeds from the sale and maturity of investment securities	46,586,474	36,033,450
Net cash provided by (used in) investing activities	<u>6,405,857</u>	<u>(633,724)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(912,615)	(31,130)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,133,577	(1,510,737)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>510,027</u>	<u>2,020,764</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,643,604</u>	<u>\$ 510,027</u>

See notes to the consolidated financial statements.

**UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 51,335	\$ 25,546
NONCASH INVESTING AND FINANCING TRANSACTIONS		
Real estate construction purchased through accounts payable	\$ -	\$ 171,123
Debt incurred to purchase vehicles	92,676	216,624
Debt incurred to purchase real estate	-	1,500,000

See notes to the consolidated financial statements.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The United Methodist Children's Home and Subsidiaries (UMCH) is a not-for-profit corporation organized in 1890. The UMCH, doing business as Embrace Alabama Kids and Embrace Florida Kids, is a regional ministry serving abused, neglected, and abandoned children from across Alabama and the Florida panhandle. The UMCH has 10 locations in Alabama and four locations in Florida.

The UMCH's residential programs provide group home settings for children who can no longer live with their parents or in a foster care setting. There are separate programs and locations that serve various needs including children aged 11 through 21, mothers aged 14 through 21 with babies, and college students. In 2020, the UMCH added a new ministry that provides transitional housing for up to two years for women and their children that seeks to end the cycle of poverty and homelessness.

The UMCH offers additional nonresidential programs including foster care, family preservation, a teen center for tutoring youths who are in foster care, and transitional living programs.

Principles of Consolidation

The consolidated financial statements include the accounts of the United Methodist Children's Home and its wholly owned Subsidiaries, UMCH Services, LLC, UMCH Properties, LLC, and UMCH Foundation, Embrace Florida Kids Foundation. UMCH Properties, LLC includes its wholly owned Subsidiaries, UMCH North Alabama, LLC, UMCH South Alabama, LLC, and UMCH West Florida, LLC. All material intra-entity transactions have been eliminated.

Basis Accounting and Presentation

The UMCH's consolidated financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities at year end. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets of the UMCH and changes therein are classified and reported as follows:

Without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Investment in property and equipment, net – Assets invested by the Home in property and equipment, net of accumulated depreciation and related debt.

Board designated – Assets designated by the Board to be held for endowment or other specified purposes. The Board can elect to remove these designations in the future.

With donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the UMCH and/or passage of time. Additionally, net assets subject to donor-imposed restrictions may stipulate that the UMCH maintain them permanently. Generally, the donors of these assets permit the UMCH to use all or part of the income earned on related investments for general or specific purposes.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Cash and Cash Equivalents

The UMCH considers all highly liquid investments that are readily convertible to known amounts of cash, and so near their maturities that they present insignificant risk of changes in value because of changes in interest rates, to be cash equivalents.

Receivables

Receivables are stated at the amount management expects to collect from balances outstanding at year end. Based on management's assessment of the credit history with entities having outstanding balances and relationships with them, it has concluded that all amounts are collectible. No interest is accrued on receivables.

Property and Equipment

Buildings, household furniture, office equipment, vehicles, and outside equipment are carried at historical cost and are depreciated under the straight-line method over the estimated useful lives of the respective assets. Buildings are depreciated over a period of five to 30 years, furniture and equipment is depreciated over three to 20 years, and vehicles are depreciated over four to five years. Land is recorded at cost. Major repairs are capitalized while normal repairs and maintenance are expensed in the period incurred.

The cost and accumulated depreciation of assets sold or retired are removed from their respective accounts. Any gain or loss resulting from the disposal of operating assets is recorded in the current period. Depreciation and amortization expense for the years ended December 31, 2021 and 2020 totaled \$406,929 and \$291,212, respectively.

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are measured based on the fair value of the asset, and long-lived assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less cost to sell. At December 31, 2021 and 2020, management reviewed its long-lived assets used in operations for impairment and determined there was no event or change in circumstances that indicated impairment in value.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Other Assets

Other assets consist primarily of real estate held for investment and interests in nonperpetual trusts. Real estate is recorded at cost less accumulated depreciation. Interests in nonperpetual trusts are recorded at fair value based on the present value of the expected future cash flows. Assets acquired by gift or bequest are recorded at fair value based on the appraised value at the date acquired or the present value of the expected future cash flows.

Interests in Perpetual Trusts Held by Others

The interests in perpetual trusts are recorded at fair value, which is determined using the fair value of the assets held by the trusts.

Investments Securities

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statements of financial position. Net investment return (loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

Investment Securities Valuation

In determining fair value, the UMCH utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Investments in marketable securities traded on a national securities exchange and investments in United States government securities are stated at fair value based on the last reported sales price on the valuation date. The Home uses net asset values reported by fund managers as a practical expedient to report the fair values of its investments held through limited partnerships and other funds.

Investment securities are exposed to various risks, such as interest rate, market, liquidity, valuation, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the consolidated statements of financial position and the consolidated statements of activities.

Split-Interest Agreements

The UMCH is the beneficiary of perpetual trusts held by third parties. Under these agreements, the UMCH recognizes its right to financial and nonfinancial assets held by the recipient organization (trustee) as a beneficial interest. The beneficial interest is measured at the fair value of the underlying trust assets since the UMCH has an unconditional right to receive all or a portion of the cash flows from a charitable trust or other asset pool.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurement

The UMCH follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements guidance related to fair value measurements and disclosures. This guidance provides a framework for measuring fair value and a 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 are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. This level of the fair value hierarchy provides the most reliable evidence of fair value and is used to measure fair value whenever available.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities. These inputs include: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly; (c) inputs other than quoted prices that are observable for the asset or liability; or (d) 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 are unobservable inputs for the assets or liabilities and significant to the fair value measurement.

The 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.

Income Taxes

The UMCH is recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Certain types of income may be subject to tax from unrelated business income as defined by the tax code. During the years 2021 and 2020, the UMCH did not pay any unrelated business income tax.

The UMCH follows the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. As of December 31, 2021 and 2020, the UMCH has no uncertain tax positions that qualify for recognition or disclosure in the financial statements and no interest and penalties related to income taxes.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates in the Preparation of Financial Statements

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Program service revenue is recognized in the period in which the Home provides the services. Direct public support and gifts and legacies are recognized when the UMCH receives the contribution, or in the period in which it receives an unconditional promise to give. For contributions received through agency or intermediary transactions, the UMCH recognizes the revenue when the recipient organization receives the contribution from the donor.

Donated Assets and Rent

In-kind donations are reflected as contributions in the accompanying financial statements at their estimated fair market values at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the contribution for a specific purpose.

In July 2018, the UMCH entered into a three-year charitable collaboration agreement with an unrelated 501(c)3 organization to provide transitional housing and support services for children and youth with autism spectrum disorder and support for families of such children and youth through a facility known as Overton Place. The UMCH is providing the facility at no cost. The in-kind donation of the Home's facility is considered to be unconditional. Thus, the fair value of the promise to give is recorded as a contribution payable and reflected in the consolidated statements of financial position. The estimated annual rental value of this property is \$96,000.

Statement of Functional Expenses

The consolidated financial statements report certain categories of expenses by functional and natural classifications that are attributable to one or more program or supporting services of the UMCH. Expenses are charged directly to program services, general and administrative or fundraising based on the type of activity.

Subsequent Events

Management has evaluated subsequent events through May 19, 2022, which is the date the consolidated financial statements were available to be issued.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the UMCH's financial assets as of December 31, 2021 and 2020, reduced by amounts not available for expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, perpetual endowments and accumulated earnings net of appropriations within one year or because the governing board has set aside the funds for specific contingency reserves and projects or a long-term investment as board-designated endowments.

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 4,643,604	\$ 510,027
Accounts receivable	1,408,077	1,231,134
Investments	36,340,126	38,872,632
Beneficial interests in trusts held by others	4,011,916	3,765,350
Other assets	<u>297,117</u>	<u>357,135</u>
Financial assets at year end	46,700,840	44,736,278
Less those unavailable for general expenditure within one year due to:		
Assets and earnings subject to purpose restrictions	(1,055,657)	(647,941)
Trusts held by others not convertible to cash within the next 12 months	(4,127,293)	(3,879,611)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(8,640,885)	(8,093,192)
Investments in board designated endowments	<u>(30,324,521)</u>	<u>(28,499,231)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,552,484</u>	<u>\$ 3,616,303</u>

The UMCH's endowment funds consist of donor-restricted endowments and board designated endowments. Income from the donor-restricted endowments is restricted for distribution for its restricted purpose and, therefore, is not available for general expenditure. As part of the UMCH's liquidity management it has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations come due. Although the UMCH does not intend to spend from its board-designated endowment other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

3. RECEIVABLES

The UMCH's receivables are composed of the following at December 31:

	<u>2021</u>	<u>2020</u>
Program services	\$ 463,869	\$ 359,776
Contributions	863,958	773,194
Grants	78,750	86,200
Other	1,500	11,964
Total	<u>\$ 1,408,077</u>	<u>\$ 1,231,134</u>

4. INVESTMENT SECURITIES

The UMCH's investments as of December 31, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Fixed income fund	\$ 5,534,280	\$ 8,643,273
Inflation protection fund	-	3,529,906
Real assets	1,018,286	-
U.S. equity fund	22,797,120	18,539,547
International equity fund	6,990,440	8,159,906
Total	<u>\$ 36,340,126</u>	<u>\$ 38,872,632</u>

The components of investment income net of expenses for the year ended December 31, 2021 and 2020, are reflected in the following schedule.

	<u>2021</u>	<u>2020</u>
Net realized gains from sale of securities	\$ 3,816,481	\$ 716,368
Net unrealized appreciation in value of securities	158,578	5,053,479
Interest and dividends	64,486	559,429
Investment income	<u>\$ 4,039,545</u>	<u>\$ 6,329,276</u>

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. INTEREST IN PERPETUAL TRUSTS HELD BY OTHERS

The UMCH is named as the beneficiary of various charitable trusts created by donors where the trustee of the charitable trust has not been granted variance power and the assets of which are not in the possession of the UMCH. Consequently, the UMCH has recognized its unconditional right to receive all or a portion of the specified cash flows from these charitable trusts. These beneficial interests are valued at fair value and totaled \$4,011,916 and \$3,765,350 as of December 31, 2021 and 2020, respectively.

6. OTHER ASSETS

	<u>2021</u>	<u>2020</u>
Interest in trust held by others	\$ 115,377	\$ 114,261
Other	181,740	242,874
Total	<u>\$ 297,117</u>	<u>\$ 357,135</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Land and paving	\$ 1,108,217	\$ 1,108,217
Buildings	5,677,512	4,641,877
Household furniture	251,353	222,306
Office equipment	58,092	58,092
Vehicles and outside equipment	697,272	628,706
Leasehold improvements	40,290	27,877
Construction in progress	25,671	22,514
Less accumulated depreciation	<u>(2,689,452)</u>	<u>(2,400,865)</u>
Total	<u>\$ 5,168,955</u>	<u>\$ 4,308,724</u>

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

8. NOTES PAYABLE

The UMCH has entered into several loan agreements for the purchase of vehicles. At December 31, 2021 and 2020, the balance of these loans was \$127,759 and \$97,776, respectively. The outstanding loans at December 31, 2021 bear interest rates between 0% to 4.14% with monthly principal and interest payments totaling \$4,041, maturing February 2026. The loans are secured by the vehicles.

Maturities of notes payable are estimated as follows:

Year ending December 31:

2022	\$	43,155
2023		38,822
2024		23,369
2025		21,124
2026		<u>1,289</u>
Total	\$	<u><u>127,759</u></u>

Total interest expense for debt related to vehicles was \$850 and \$849 for the years ended December 31, 2021 and 2020, respectively.

During 2020, the UMCH entered into a line of credit for \$1,500,000 to finance the construction of the Mobile facility. The UMCH later transitioned the line of credit to a traditional note with a bank. At December 31, 2021 and 2020, the balance of this loan was \$641,482 and \$1,491,404, respectively. The loan was amended in December 2021. The loan bears interest at 3.5% with monthly principal and interest payments totaling \$4,018, maturing November 2039. The loan is secured by the facility.

Maturities of note payable are estimated as follows:

Year ending December 31:

2022	\$	26,226
2023		27,159
2024		28,125
2025		29,126
2026		30,162
Thereafter		<u>500,684</u>
Total	\$	<u><u>641,482</u></u>

Total interest expense for the related debt was \$50,485 and \$24,697 for the year ended December 31, 2021 and 2020, respectively.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

9. NET ASSETS

Net assets with donor restrictions due to:

	<u>2021</u>	<u>2020</u>
Time	\$ 115,377	\$ 114,261
Purpose:		
Scholarships	4,144,359	3,619,811
Education	64,315	54,597
Recreation	27,203	23,093
Medical	17,338	14,718
General operations	4,123,778	3,763,429
Babies first	8,992	8,133
FOCUS program	-	30,000
Embrace Florida Kids	198,118	276,101
	<u>\$ 8,699,480</u>	<u>\$ 7,904,143</u>

Net assets with donor restrictions that are perpetual in nature are available for investment, the income from which is expendable to support the following:

	<u>2021</u>	<u>2020</u>
Scholarships	\$ 4,258,252	\$ 4,258,252
Education	37,095	37,095
Recreation	15,690	15,690
Medical	10,000	10,000
General operations	53,724	53,724
Embrace Florida Kids	749,594	749,594
	<u>\$ 5,124,355</u>	<u>\$ 5,124,355</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors as follows:

	<u>2021</u>	<u>2020</u>
Scholarships	\$ 309,722	\$ 283,677
Embrace Florida Kids	83,999	-
General operations	22,253	-
FOCUS program	30,000	30,000
	<u>\$ 445,974</u>	<u>\$ 313,677</u>

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

10. LEASES AS LESSOR

The UMCH has commercial land leases, expiring through 2032, located in Selma, Alabama.

The following is a schedule by years of estimated future minimum rentals under the leases at December 31, 2021:

Years ending December 31:

2022	\$ 48,315
2023	48,315
2024	48,315
2025	48,315
2026	48,315
Thereafter	<u>2,254,538</u>
Total	<u>\$ 2,496,113</u>

11. LEASES AS LESSEE

The UMCH leases various properties, including its headquarters office, under noncancelable operating leases with expiration dates through 2025. Total lease expense for 2021 and 2020 was \$337,953 and \$440,173, respectively.

Future minimum rental payments under the leases at December 31, 2021 are due as follows:

Year ending December 31:

2022	\$ 260,174
2023	218,905
2024	202,553
2025	<u>163,221</u>
Total	<u>\$ 844,853</u>

Included among the leases is the UMCH's former headquarters office, which is being leased through November 2025 as a condition of its sale. The former headquarters office is being subleased to a third party through March 2024.

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DECEMBER 31, 2021 AND 2020

11. LEASES AS LESSEE – CONTINUED

Future minimum rental payments to be received specific to the former headquarters due as follows:

	<u>Rental Payments</u>	<u>Rental Receipts</u>
Year ending December 31:		
2022	\$ 173,622	\$ 170,259
2023	177,042	170,259
2024	180,576	42,565
2025	161,196	-
Total	<u>\$ 692,436</u>	<u>\$ 383,083</u>

In the event that the sub lessee terminates its lease during the term of the UMCH's lease of its current headquarters, the UMCH has the right to terminate its current headquarters lease with 60 days' notice. The fair rental value of \$169,019 has been reported net of related expenses as occupancy expense on the statement of functional expenses as of December 31, 2021.

12. TAX-DEFERRED ANNUITY PLAN

The UMCH maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. Eligible employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. An employee must have one year of service to be eligible for the employer's matching contribution. The UMCH matches a portion of the employees' contribution up to 3.00% of the employees' compensation. The UMCH also may make a contribution ranging from 3.00% to 5.00% based on each eligible employee's compensation and years of service. Total expense recorded for the UMCH was \$175,101 for 2021 and \$163,383 for 2020.

13. CONCENTRATIONS

The UMCH receives a substantial amount of its support from with the Alabama Department of Human Resources and the Florida Department of Children and Families. A significant reduction in the level of this support may have an effect on the Home's programs and activities.

Substantially all of the UMCH's cash and cash equivalents are with two financial institutions, and at certain times, may have deposits in excess of Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insured limits. Management, however, believes the credit risk associated with these deposits is minimal. The UMCH's uninsured cash balances total \$4,156,976 and \$356,077 as of December 31, 2021 and 2020, respectively.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. ENDOWMENT

The UMCH applies FASB guidance related to the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The guidance also requires disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds).

The UMCH's endowment consists of approximately 25 individual funds established for a variety of purposes, including the provision of support for scholarships, children's medical expenses, recreation, and other program services. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. In accordance with accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of the UMCH has interpreted the Alabama UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The UMCH classifies as perpetual donor restricted net assets (a) the original value of contributions to the permanent endowment, (b) the value of subsequent contributions to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetual donor restricted net assets is classified as donor restricted net assets due to time or purpose until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the UMCH 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 the UMCH and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the UMCH;
- (7) The investment policies of the UMCH.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

14. ENDOWMENT – CONTINUED

Endowment net assets consist of the following as of December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions		Fair Value
		Original Gift	Accumulated Gains (Losses)	
Donor-restricted endowment funds	\$ -	\$ 8,254,371	\$ 4,513,807	\$ 12,768,178
Board-designated endowment funds	30,324,521	-	-	30,324,521
Total funds	\$ 30,324,521	\$ 8,254,371	\$ 4,513,807	\$ 43,092,699

Endowment net assets consist of following as of December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions		Fair Value
		Original Gift	Accumulated Gains (Losses)	
Donor-restricted endowment funds	\$ -	\$ 8,254,371	\$ 3,718,432	\$ 11,972,803
Board-designated endowment funds	28,499,231	-	-	28,499,231
Total funds	\$ 28,499,231	\$ 8,254,371	\$ 3,718,432	\$ 40,472,034

Changes in endowment net assets for the year ended December 31, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 28,499,231	\$ 11,972,803	\$ 40,472,034
Investment return:			
Investment income	47,647	14,250	61,897
Net appreciation (realized and unrealized)	2,917,555	848,937	3,766,492
Total investment return	2,965,202	863,187	3,828,389
Change in value of trusts held by others	-	247,404	247,404
Board-designated withdrawal	-	-	-
Appropriation of endowment assets for expenditure	(1,116,062)	(309,444)	(1,425,506)
Other expenses or reclassifications	(23,850)	(5,772)	(29,622)
Endowment net assets, end of year	\$ 30,324,521	\$ 12,768,178	\$ 43,092,699

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. ENDOWMENT – CONTINUED

Changes in endowment net assets for the year ended December 31, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 26,208,653	\$ 10,510,292	\$ 36,718,945
Investment return			
Investment earnings	314,698	87,668	402,366
Net appreciation (realized and unrealized)	4,304,450	1,285,438	5,589,888
Total investment return	4,619,148	1,373,106	5,992,254
Change in value of trusts held by others	-	373,082	373,082
Board-designated withdrawal	(940,758)	-	(940,758)
Appropriation of endowment assets for expenditure	(1,387,812)	(283,677)	(1,671,489)
Endowment net assets, end of year	<u>\$ 28,499,231</u>	<u>\$ 11,972,803</u>	<u>\$ 40,472,034</u>

\$4,127,293 and \$3,879,611 of the endowment funds are held in perpetual trusts, the investment of which is determined by the trustee rather than the UMCH as of December 31, 2021 and 2020, respectively.

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). These deficiencies may result from unfavorable market declines that occurred shortly after the investment of newly established endowments, and authorized appropriations that were deemed prudent. When donor endowment deficiencies exist or subsequent gains restore the fair value of the assets of the endowment fund to the required level, they are classified as a reduction or increase of net assets with donor restrictions. The UMCH did not have any underwater endowments for the years ended December 31, 2021 and 2020.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. ENDOWMENT – CONTINUED

Return Objectives and Risk Parameters

The UMCH has adopted endowed investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the UMCH must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to assume moderate level of investment risk while producing results that exceed the price and yield results of the following benchmarks as applicable: Russell 3000, the MSCI EAFE, MSCI Emerging Markets Index, and Barclay's Aggregate Bond Index. The UMCH expects its endowment funds, over time, to provide an average annual rate of return that exceeds the Consumer Price Index (CPI) by 6%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the UMCH relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The UMCH targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The UMCH has a policy of appropriating for distribution each year up to 6% of its endowment fund's average fair value as of June 30 for the three years preceding the calendar year in which the distribution is planned. In establishing this policy, the UMCH considered the long-term expected return on its endowment. Although 6% is the allowed amount, the current acknowledged practice is to distribute only 4.5%. The intent is, over the long-term, to allow the endowment to grow at an average of 2% annually, which is consistent with the UMCH's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

15. FAIR VALUE MEASUREMENTS

The UMCH's assets and liabilities measured at fair value are based on one or more of three valuation techniques, which include the following:

Market approach – prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – amount that would be required to replace the service capacity of an asset (that is, replacement cost).

Income approach – techniques to convert future amounts to a single, present amount based on market expectations (including present value techniques, option-pricing models and lattice models).

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

15. FAIR VALUE MEASUREMENTS – CONTINUED

Investments in Level 1 are valued primarily at the closing price reported on the active market on which the individual securities are traded. The fair value of the UMCH's beneficial interest in trusts is based on the discounted net present value of the expected cash flows which is an income approach.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used as of December 31, 2021.

The following table presents the financial assets and liabilities subject to fair value measurement by valuation hierarchy level as of December 31, 2021.

	Assets at Fair Value as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities	\$ 29,787,560	\$ -	\$ -	\$ 29,787,560
Fixed income	5,534,280	-	-	5,534,280
Real assets	1,018,286	-	-	1,018,286
Beneficial interest in trusts	-	-	4,011,916	4,011,916
Interests in other trusts	-	-	114,377	114,377
Total	\$ 36,340,126	\$ -	\$ 4,126,293	\$ 40,466,419

The following table presents the financial assets and liabilities subject to fair value measurement by valuation hierarchy level as of December 31, 2020.

	Assets at Fair Value as of December 31, 2020		
	Fair Value	Level 3	Total
Investments measured at net asset value (a)	\$ 38,872,632	\$ -	\$ 38,872,632
Interests in perpetual trusts	-	3,765,350	3,765,350
Interests in other trusts	-	114,261	114,261

(a) In accordance with subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

15. FAIR VALUE MEASUREMENTS – CONTINUED

The UMCH recognizes there are certain inherent and extraneous risks associated with any investment. Risk is managed through rigorous due diligence of new and existing managers as well as through appropriate portfolio construction. While portfolio diversification can reduce idiosyncratic risk, market risk overall cannot be eliminated.

Our investment process and portfolio implementation are designed to address such risks in general. However, particular instances like the spread of COVID-19 and its implication on the economy and society, cannot be predicted with certainty. As a result, the total fair value of the portfolio is subject to further fluctuation and the performance may be adversely affected.

The UMCH is closely monitoring its investment portfolio. Given the uncertainty about the situation, we cannot estimate the future impact to our financial statements.

16. EFFECT OF NEW ACCOUNTING PRONOUNCEMENT

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The purpose of this ASU is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on their statements of financial position and disclosing key information about leasing arrangements. The amendments in this ASU require that lessees recognize the rights and obligations resulting from leases as assets and liabilities on their statements of financial position, initially measured at the present value of the lease payments over the term of the lease, including payments to be made in optional periods to extend the lease and payments to purchase the underlying assets if the lessee is reasonably certain of exercising those options. Topic 842 requires recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting principles generally accepted in the United States of America. The standard is effective for the UMCH for the year ending December 31, 2022. The UMCH is currently evaluating the impact of this guidance on the consolidated financial statements.

17. SUBSEQUENT EVENTS

The outbreak of the coronavirus has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus pandemic and government responses are creating disruption in global supply chains and adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus. Nevertheless, the coronavirus presents material uncertainty and risk with respect to the UMCH, its performance and its financial results.

SUPPLEMENTARY INFORMATION

UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

	<u>UMCH</u>	<u>UMCH Services, LLC</u>	<u>UMCH Properties, LLC</u>	<u>UMCH Foundation</u>	<u>Embrace Florida Kids Foundation</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS							
Cash and cash equivalents	\$ -	\$ 974,198	\$ -	\$ 3,577,781	\$ 91,625	\$ -	\$ 4,643,604
Accounts receivable	-	1,408,077	-	-	-	-	1,408,077
Investment securities	-	-	-	35,387,626	952,500	-	36,340,126
Interest in perpetual trusts	-	4,011,916	-	-	-	-	4,011,916
Other assets, net	-	297,117	-	-	-	-	297,117
Investment in UMCH Services, LLC	9,803,605	-	-	-	-	(9,803,605)	-
Investment in UMCH Properties, LLC	996,053	-	-	-	-	(996,053)	-
Investment in UMCH Foundation	38,965,407	-	-	-	-	(38,965,407)	-
Investment in Embrace	1,044,125	-	-	-	-	(1,044,125)	-
Property and equipment, at cost							
Land and paving	-	486,337	621,880	-	-	-	1,108,217
Buildings	-	3,279,230	2,398,282	-	-	-	5,677,512
Household furniture	-	251,353	-	-	-	-	251,353
Office equipment	-	58,092	-	-	-	-	58,092
Vehicles and outside equipment	-	697,272	-	-	-	-	697,272
Leasehold improvements	-	40,290	-	-	-	-	40,290
Construction in progress	-	25,671	-	-	-	-	25,671
Less accumulated depreciation	-	(665,343)	(2,024,109)	-	-	-	(2,689,452)
Total property and equipment	-	4,172,902	996,053	-	-	-	5,168,955
TOTAL ASSETS	<u>\$ 50,809,190</u>	<u>\$ 10,864,210</u>	<u>\$ 996,053</u>	<u>\$ 38,965,407</u>	<u>\$ 1,044,125</u>	<u>\$ (50,809,190)</u>	<u>\$ 51,869,795</u>

See independent auditors' report.

**UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021**

	<u>UMCH</u>	<u>UMCH Services, LLC</u>	<u>UMCH Properties, LLC</u>	<u>UMCH Foundation</u>	<u>Embrace Florida Kids Foundation</u>	<u>Eliminations</u>	<u>Total</u>
LIABILITIES AND NET ASSETS							
LIABILITIES							
Accounts payable	\$ -	\$ 110,500	\$ -	\$ -	\$ -	\$ -	\$ 110,500
Contribution payable	-	-	-	-	-	-	-
Accrued compensation	-	134,853	-	-	-	-	134,853
Notes payable	-	769,241	-	-	-	-	769,241
Deferred revenue	-	46,011	-	-	-	-	46,011
Total liabilities	-	1,060,605	-	-	-	-	1,060,605
NET ASSETS							
Without donor restrictions	36,985,355	5,622,428	996,053	30,366,873	-	(36,985,354)	36,985,355
With donor restrictions	13,823,835	4,181,177	-	8,598,534	1,044,125	(13,823,836)	13,823,835
Total net assets	50,809,190	9,803,605	996,053	38,965,407	1,044,125	(50,809,190)	50,809,190
TOTAL LIABILITIES AND NET ASSETS	\$ 50,809,190	\$ 10,864,210	\$ 996,053	\$ 38,965,407	\$ 1,044,125	\$ (50,809,190)	\$ 51,869,795

See independent auditors' report.

**UNITED METHODIST CHILDREN'S HOME AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>UMCH</u>	<u>UMCH Services, LLC</u>	<u>UMCH Properties, LLC</u>	<u>UMCH Foundation</u>	<u>Embrace Florida Kids Foundation</u>	<u>Eliminations</u>	<u>Total</u>
SUPPORT AND REVENUE							
Direct public support:							
Annual giving	\$ -	\$ 3,999,093	\$ -	\$ -	\$ -	\$ -	\$ 3,999,093
Estate gifts and trusts	-	1,541,880	-	-	-	-	1,541,880
Program service revenue	-	2,118,694	-	-	-	-	2,118,694
Grant income	-	184,179	-	-	-	-	184,179
Investment return (loss) net	204,432	707	-	3,828,390	6,016	-	4,039,545
Other income	-	41,592	246,750	-	-	(246,750)	41,592
Gain on disposition of assets	-	36,900	-	-	-	-	36,900
Gain on perpetual trusts held by others	-	246,566	-	-	-	-	246,566
Gain on other assets	-	838	-	-	-	-	838
TOTAL SUPPORT AND REVENUE	204,432	8,170,449	246,750	3,828,390	6,016	(246,750)	12,209,287
EXPENSES							
Program expenses	-	5,804,476	52,975	-	-	(165,750)	5,691,701
Supporting services:							
Management and general	81,135	1,602,374	2,788	29,621	881	(81,000)	1,635,799
Fundraising	-	905,718	-	-	-	-	905,718
TOTAL EXPENSES	81,135	8,312,568	55,763	29,621	881	(246,750)	8,233,218
INCREASE (DECREASE) IN NET ASSETS	123,297	(142,119)	190,987	3,798,769	5,135	-	3,976,069
Change in equity subsidiaries	6,256,278	-	-	-	-	(6,256,278)	-
Net assets at beginning of year	46,833,121	6,932,988	1,027,501	36,592,423	-	(44,552,912)	46,833,121
Assets transferred during the year	(2,403,506)	3,012,736	(222,435)	(1,425,785)	1,038,990	-	-
NET ASSETS AT END OF YEAR	\$ 50,809,190	\$ 9,803,605	\$ 996,053	\$ 38,965,407	\$ 1,044,125	\$ (50,809,190)	\$ 50,809,190

See independent auditors' report.