

**UNITED METHODIST
CHILDREN'S HOME
DECEMBER 31, 2014**

FINANCIAL STATEMENTS

UNITED METHODIST CHILDREN'S HOME
MONTGOMERY, ALABAMA

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of United Methodist Children's Home and subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 consolidated 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 consolidated financial statements 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 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Methodist Children's Home and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jackson Shernton & Co. PC

Montgomery, Alabama
April 2, 2015

UNITED METHODIST CHILDREN'S HOME
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
ASSETS:		
Cash	\$ 412,920	\$ 317,348
Accounts receivable	1,861,202	959,769
Investment securities	26,400,896	24,834,830
Interests in perpetual trusts	2,742,873	2,669,575
Other assets	2,669,514	163,809
Property and equipment, net	<u>3,218,585</u>	<u>3,299,748</u>
 Total assets	 <u>\$ 37,305,990</u>	 <u>\$ 32,245,079</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Note payable - line of credit	\$ 300,000	\$ 225,000
Accounts payable	118,838	115,089
Accrued compensation	275,643	306,524
Long-term debt	<u>2,647,023</u>	<u>26,596</u>
Total liabilities	<u>3,341,504</u>	<u>673,209</u>
 NET ASSETS:		
Unrestricted	25,265,315	23,006,028
Temporarily restricted	1,584,738	1,527,107
Permanently restricted	<u>7,114,433</u>	<u>7,038,735</u>
Total net assets	<u>33,964,486</u>	<u>31,571,870</u>
 Total liabilities and net assets	 <u>\$ 37,305,990</u>	 <u>\$ 32,245,079</u>

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

UNITED METHODIST CHILDREN'S HOME
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CHANGE IN UNRESTRICTED NET ASSETS:		
Revenues, gains, and net assets released from restrictions:		
Direct public support	\$ 4,399,571	\$ 2,409,540
Program service revenue	2,003,612	2,187,053
Investment return	1,000,303	3,082,821
Other income	306,024	336,951
Assets released from restrictions	247,500	99,000
Total revenues and gains	<u>7,957,010</u>	<u>8,115,365</u>
Expenses and losses:		
Program expenses:		
Residential	2,502,137	2,739,824
Foster care, family preservation and adoption services	1,733,407	1,684,733
Supporting services expenses:		
Management and general	1,012,615	912,355
Fund-raising	449,564	443,174
Total expenses	<u>5,697,723</u>	<u>5,780,086</u>
Loss on impairment of property		1,305,260
Total expenses and losses	<u>5,697,723</u>	<u>7,085,346</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>2,259,287</u>	<u>1,030,019</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
Investment return	302,686	885,444
Change in value of trusts held by others	2,445	(3,733)
Assets released from restrictions	(247,500)	(99,000)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>57,631</u>	<u>782,711</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	2,400	1,190
Change in value of perpetual trusts held by others	73,298	127,904
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>75,698</u>	<u>129,094</u>
INCREASE IN NET ASSETS	<u>2,392,616</u>	<u>1,941,824</u>
NET ASSETS AT BEGINNING OF YEAR	<u>31,571,870</u>	<u>29,630,046</u>
NET ASSETS AT END OF YEAR	<u>\$ 33,964,486</u>	<u>\$ 31,571,870</u>

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

UNITED METHODIST CHILDREN'S HOME

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	PROGRAM		SUPPORTING SERVICES		TOTAL
	RESIDENTIAL	OTHER	MANAGEMENT AND GENERAL	FUND- RAISING	
Salaries and wages	\$ 1,341,911	\$ 876,779	\$ 453,429	\$ 215,151	\$ 2,887,270
Other employee benefits	217,959	172,578	60,166	49,706	500,409
Payroll taxes	105,406	67,727	56,394	16,896	246,423
Accounting and agent fees			65,212		65,212
Consulting and legal fees			79,087		79,087
Supplies	13,868	11,886	7,837	1,331	34,922
Data and telephone	46,292	23,334	30,425	9,233	109,284
Postage and shipping	2,920	2,758	3,698	14,398	23,774
Occupancy	150,292	44,388	30,600	16,500	241,780
Equipment rental and maintenance	28,257	17,196	68,504	4,910	118,867
Printing and publications	3,013	3,475	461	84,928	91,877
Travel	77,477	152,602	13,716	21,948	265,743
Dues, memberships, and meetings	1,331	1,116	5,563	1,711	9,721
Insurance	107,491	75,962	13,775	12,138	209,366
Staff training	5,360	5,737	710	634	12,441
Bank charges and interest expense	33	17	12,730	50	12,830
Residents' other needs	220,530	36,118	958	30	257,636
Household supplies	19,484	1,260			20,744
Foster parent fees		213,276			213,276
Depreciation	160,478	27,180	104,191		291,849
Accreditation	35	18	5,159		5,212
Totals	\$ 2,502,137	\$ 1,733,407	\$ 1,012,615	\$ 449,564	\$ 5,697,723

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

UNITED METHODIST CHILDREN'S HOME

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	PROGRAM		SUPPORTING SERVICES		TOTAL
	RESIDENTIAL	OTHER	MANAGEMENT AND GENERAL	FUND- RAISING	
Salaries and wages	\$ 1,591,812	\$ 870,748	\$ 449,609	\$ 179,719	\$ 3,091,888
Other employee benefits	262,479	160,074	77,238	39,031	538,822
Payroll taxes	115,513	61,934	67,287	6,950	251,684
Professional fundraising fees				1,172	1,172
Accounting and agent fees			19,660		19,660
Consulting and legal fees			17,281		17,281
Supplies	21,890	20,486	5,108	328	47,812
Data and telephone	33,976	24,742	14,860	1,950	75,528
Postage and shipping	2,122	48	2,682	13,764	18,616
Occupancy	138,947	56,307	23,197	17,002	235,453
Equipment rental and maintenance	24,335	10,271	52,046	20,893	107,545
Printing and publications		404		113,865	114,269
Travel	99,945	156,281	12,645	16,983	285,854
Dues, memberships, and meetings		85	7,071	418	7,574
Insurance	120,873	46,898	11,518	30,601	209,890
Staff training	4,894	4,595	1,427	498	11,414
Bank charges and interest expense			6,206		6,206
Residents' other needs	256,363	44,174			300,537
Household supplies	21,832				21,832
Foster parent fees		220,211			220,211
Depreciation	44,843	7,475	134,275		186,593
Accreditation			10,245		10,245
Totals	\$ 2,739,824	\$ 1,684,733	\$ 912,355	\$ 443,174	\$ 5,780,086

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

UNITED METHODIST CHILDREN'S HOME
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
Increase (Decrease) in Cash and Cash Equivalents

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Change in net assets	\$ 2,392,616	\$ 1,941,824
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	291,849	186,593
Unrealized and realized gain on investment securities	(781,664)	(3,336,806)
Loss on impairment of property		1,305,260
Change in value of other assets and trusts	(79,003)	(117,777)
Contributions restricted for investment in permanent endowments	(2,400)	(1,190)
Increase in operating assets and decrease in operating liabilities:		
Accounts receivable	(901,433)	(306,265)
Accounts payable and accrued expenses	(27,132)	(32,717)
Net cash from (used for) operating activities	892,833	(361,078)
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Purchase of property and equipment	(76,790)	(85,055)
Purchase of investment securities	(1,898,688)	(1,851,894)
Proceeds from the sale and maturity of investment securities	1,114,286	2,194,126
Net cash from (used for) investing activities	(861,192)	257,177
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:		
Payments on long term debt	(13,469)	(23,290)
Proceeds from line of credit	300,000	325,000
Payments on line of credit	(225,000)	(268,000)
Contributions restricted for investment in permanent endowments	2,400	1,190
Net cash from financing activities	63,931	34,900
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	95,572	(69,001)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	317,348	386,349
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 412,920	\$ 317,348
Supplemental schedule of noncash investing and financing activity:		
Debt incurred to purchase vehicles	\$ 133,896	
Debt incurred to purchase commercial real estate	\$ 2,500,000	

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

UNITED METHODIST CHILDREN'S HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of operations - The United Methodist Children's Home (the Home) is a not-for-profit corporation organized in 1890. The Home is a regional ministry serving abused, neglected, and abandoned children from across Alabama and the Florida panhandle. The Home has 12 locations in Alabama and three locations in Florida.

Principles of consolidation - In 2013 the Home restructured and formed five limited liability companies (LLC's). The Home transferred certain of its assets to the LLC's. The transferred assets were recorded at the Home's carrying amount.

In 2014 the Home formed two limited liability companies (LLC's), UMCH Investments, LLC and UMCH Selma Leasehold, LLC.

The consolidated financial statements include the accounts of United Methodist Children's Home, Inc. and its wholly owned subsidiaries, UMCH Services, LLC, UMCH Properties, LLC, and UMCH Investments, LLC. UMCH Properties, LLC includes its wholly owned subsidiaries, UMCH North Alabama, LLC, UMCH South Alabama, LLC and UMCH West Florida, LLC. UMCH Investments, LLC includes its wholly owned subsidiary, UMCH Selma Leasehold, LLC. All material intra-entity transactions have been eliminated.

Basis of presentation - The Home's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Home's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Home and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Home pursuant to those stipulations or that expire by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Home. Generally, the donors of these assets permit the Home to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

UNITED METHODIST CHILDREN'S HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Temporarily restricted net assets - With respect to temporarily restricted net assets, the Home recognizes contributions received with donor-imposed restrictions that are met in the same year as received as revenues of the unrestricted net asset class.

Cash and cash equivalents - For cash flow statement purposes, the Home 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.

The Home maintains its cash in deposit accounts at one bank. The cash in the accounts may at times exceed federally insured limits. The Home believes it is not exposed to any significant credit risk on its cash.

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 principally 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.

Contributed assets are recorded at their fair value on the date of the contribution.

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. Long-lived assets were measured for impairment and an adjustment was deemed necessary during the year ended December 31, 2013. See Note 6.

Other assets - Other assets consist primarily of real estate held for investment and interests in non-perpetual trusts. Real estate is recorded at cost less accumulated depreciation. Interests in non-perpetual 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.

UNITED METHODIST CHILDREN'S HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Fair value measurements - The guidance related to fair value measurements and disclosures issued by the Financial Accounting Standards Board (FASB) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Home has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of pricing models, price matrices, value of similar assets or underlying assets, or other valuation methodologies.

Level 3 - Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

Income taxes - The Home is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(3) except on net income derived from unrelated business activities. The Home is classified by the Internal Revenue Service as other than a private foundation. With few exceptions, the Home is no longer subject to federal or state income tax examinations by tax authorities for years prior to 2011.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally 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.

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 Home 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 Home recognizes the revenue when the recipient organization receives the contribution from the donor.

Reclassification - Certain 2013 amounts were reclassified in order to conform to the 2014 presentation.

UNITED METHODIST CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 2 - RECEIVABLES:

Receivables are composed of the following at December 31:

	<u>2014</u>	<u>2013</u>
Program service contracts	\$ 309,613	\$ 331,337
Contributions	<u>1,551,589</u>	<u>628,432</u>
Totals	<u>\$ 1,861,202</u>	<u>\$ 959,769</u>

NOTE 3 - INVESTMENTS:

The Home has invested in four private funds managed by Wespeth, a division of the General Board of Pensions and Health Benefits of The United Methodist Church.

The Home's investments in these funds is as follows at December 31:

	<u>2014</u>	<u>2013</u>
Fixed Income Fund	\$ 6,322,750	\$ 5,993,388
Inflation Protection Fund	2,289,038	2,350,580
U.S. Equity Fund	13,135,515	11,566,923
International Equity Fund	<u>4,653,593</u>	<u>4,923,939</u>
Totals	<u>\$ 26,400,896</u>	<u>\$ 24,834,830</u>

UNITED METHODIST CHILDREN'S HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 3 - INVESTMENTS: (continued)

The following tables present the composition of all investments held by the funds, by investment type, for each of the Wespath funds as of December 31 (unaudited):

	FIXED INCOME FUND	INFLATION PROTECTION FUND	U.S. EQUITY FUND	INTERNATIONAL EQUITY FUND
December 31, 2014:				
U.S. Government and				
Federal Agency obligations	18.10%			
Domestic corporate and other bonds	38.89%	7.91%		
Inflation protected securities		52.03%		
Other fixed income securities	7.43%	8.57%		
Domestic equity securities	0.75%		85.61%	
International fixed income securities	31.70%	28.74%		
International equities			5.65%	95.60%
Private equity and real estate partnerships			6.35%	
Real assets		0.41%		
Futures contracts and other derivative securities	0.03%	-0.97%	0.07%	0.01%
Cash equivalent securities	3.10%	3.32%	2.32%	4.39%
	100%	100%	100%	100%
	FIXED INCOME FUND	INFLATION PROTECTION FUND	U.S. EQUITY FUND	INTERNATIONAL EQUITY FUND
December 31, 2013:				
U.S. Government and				
Federal Agency obligations	16.83%		0.16%	
Domestic corporate and other bonds	40.35%	8.70%		
Inflation protected securities		48.69%		
Other fixed income securities	8.80%	8.18%		
Domestic equity securities	0.03%		86.35%	
International fixed income securities	30.55%	31.64%		
International equities			5.42%	98.39%
Private equity and real estate partnerships			5.87%	
Futures contracts and other derivative securities	0.01%	-0.06%	0.07%	0.06%
Cash equivalent securities	3.44%	2.85%	2.13%	1.54%
	100%	100%	100%	100%

UNITED METHODIST CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Investment return for December 31, 2014 is composed of the following:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
Investment earnings	\$ 403,498	\$ 117,827	\$ 521,325
Realized/unrealized gains and losses, net	<u>596,805</u>	<u>184,859</u>	<u>781,664</u>
Totals	<u>\$ 1,000,303</u>	<u>\$ 302,686</u>	<u>\$ 1,302,989</u>

Investment return for December 31, 2013 is composed of the following:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
Investment earnings	\$ 527,784	\$ 103,675	\$ 631,459
Realized/unrealized gains and losses, net	<u>2,555,037</u>	<u>781,769</u>	<u>3,336,806</u>
Totals	<u>\$ 3,082,821</u>	<u>\$ 885,444</u>	<u>\$ 3,968,265</u>

NOTE 4 - INTERESTS IN PERPETUAL TRUSTS HELD BY OTHERS:

The Home is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Home. The Home has legally enforceable rights or claims to the income of the trusts. The change in value related to the interest in perpetual trusts held by others is reported in permanently restricted net assets based on explicit donor stipulations. The fair value at December 31, 2014 and 2013 is \$2,742,873 and \$2,669,575, respectively.

NOTE 5 - OTHER ASSETS:

	<u>2014</u>	<u>2013</u>
Land held for sale	\$ 40,590	\$ 40,590
Interest in trust held by others	113,088	110,643
Commercial real estate held for lease	2,500,000	
Other	<u>15,836</u>	<u>12,576</u>
Totals	<u>\$ 2,669,514</u>	<u>\$ 163,809</u>

UNITED METHODIST CHILDREN'S HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 6 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Land and paving	\$ 830,461	\$ 830,461
Buildings	3,638,106	3,638,105
Household furniture	372,009	467,229
Office equipment	246,360	153,633
Vehicles and outside equipment	426,544	352,721
Construction in progress	3,025	50,819
Less: Accumulated depreciation	<u>2,297,920</u>	<u>2,193,220</u>
 Totals	 <u>\$ 3,218,585</u>	 <u>\$ 3,299,748</u>

Loss on impairment - During 2013, the Home evaluated the market value of the real estate used in its operations. Based on this evaluation, the Home determined that assets with a carrying amount of \$3,952,787 were impaired and wrote them down by \$1,305,260 to their estimated fair value. The fair value was estimated using the market approach. The market approach was based primarily on market comparables and assumptions about market capitalization rates.

NOTE 7 - NOTE PAYABLE - LINE OF CREDIT:

The Home has a line of credit with Regions Bank with a \$300,000 borrowing limit. At December 31, 2014 and 2013, the outstanding balance on the line of credit is \$300,000 and \$225,000, respectively. The line is unsecured and accrues interest at a variable rate based on Regions Bank's Prime Rate plus 1.00%. The interest rate as of December 31, 2014 was 4.10%. Interest expense for the years ended December 31, 2014 and 2013 is \$5,638 and \$352, respectively. Interest is due monthly and the principal and any unpaid interest is due and payable in full in January 2015. The line of credit was renewed in January 2015 with a \$300,000 borrowing limit and new maturity of October 2015.

NOTE 8 - LONG TERM DEBT:

The Home has a note payable with the Alabama-West Florida United Methodist Development Fund, Inc. As of December 31, 2014 and 2013, the balance of the loan is \$13,127 and \$26,596, respectively. This note currently bears an interest rate of 3.50% and is subject to annual adjustment by the Development Fund's Board of Trustees. Payments are made in quarterly installments of \$5,823, which include interest, payable the last day of each quarter. The Home has pledged, as collateral, the income it receives annually from the Skinner Memorial Fund.

On December 31, 2014, the Home entered into a \$2,500,000 loan agreement to purchase commercial real estate in Selma, Alabama. The loan currently bears interest at 4.50% and requires monthly interest only payments of \$9,375 through June 1, 2016. Monthly principal and interest payments of \$16,612 begin July 1, 2016 and continue through December 1, 2034. The debt is secured by a mortgage on the real estate.

UNITED METHODIST CHILDREN'S HOME
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2014 AND 2013

During 2014 the Home entered into eight loan agreements for the purchase of vehicles. At December 31, 2014 the balance of these loans was \$133,896. The loans bear interest rates of 2.39% with monthly principal and interest payments ranging from \$351 to \$397, maturing December 1, 2018. The loans are secured by the vehicles.

Maturities of long-term debt are estimated as follows:

YEAR ENDING DECEMBER 31:

2015	\$ 45,390
2016	76,888
2017	124,541
2018	129,535
2019	99,189
Thereafter	<u>2,171,480</u>
Total	<u>\$ 2,647,023</u>

NOTE 9 - NET ASSETS:

Temporarily restricted net assets consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Investment return on permanently restricted net assets not yet appropriated for expenditure:		
Restricted for scholarships	\$ 1,424,286	\$ 1,377,079
General use	47,364	39,385
Interest in trusts held by others	<u>113,088</u>	<u>110,643</u>
Totals	<u>\$ 1,584,738</u>	<u>\$ 1,527,107</u>

Permanently restricted net assets consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Beneficial interests in perpetual trusts	\$ 2,742,873	\$ 2,669,575
Perpetual endowment funds	<u>4,371,560</u>	<u>4,369,160</u>
Totals	<u>\$ 7,114,433</u>	<u>\$ 7,038,735</u>

UNITED METHODIST CHILDREN'S HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 10 - FUNCTIONAL ALLOCATION OF EXPENSES:

The cost of providing various programs and other activities has been presented on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 11 - TAX-DEFERRED ANNUITY PLAN:

The Home 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 Home matches a portion of the employees' contribution up to 3% of the employees' compensation. The Home also may make a contribution ranging from 3% to 5% based on each eligible employee's compensation and years of service. Total expense recorded for the Home was \$128,132 for 2014 and \$140,124 for 2013.

NOTE 12 - CONCENTRATION OF SUPPORT:

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

NOTE 13 - ENDOWMENT:

The Home'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. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

UNITED METHODIST CHILDREN'S HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 13 - ENDOWMENT: (continued)

Relevant law - The Board of Directors of the Home has interpreted the Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Home classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Home in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Home 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 purpose of the Home 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 Home.
7. The investment policies of the Home.

Endowment net asset composition by type of fund as of December 31, 2014:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds		\$ 1,584,738	\$ 7,114,433	\$ 8,699,171
Board-designated endowment funds	\$ 20,557,686			20,557,686
Total funds	<u>\$ 20,557,686</u>	<u>\$ 1,584,738</u>	<u>\$ 7,114,433</u>	<u>\$ 29,256,857</u>

UNITED METHODIST CHILDREN'S HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 13 - ENDOWMENT: (continued)

Changes in endowment net assets for the year ended December 31, 2014:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of year	\$ 19,049,206	\$ 1,527,107	\$ 7,038,735	\$ 27,615,048
Investment return:				
Investment earnings	382,430	117,819		500,249
Net appreciation (realized and unrealized)	596,805	184,867		781,672
Total investment return	979,235	302,686		1,281,921
Change in value of trusts held by others		2,445	73,298	75,743
Contributions			2,400	2,400
Board designated addition	1,331,645			1,331,645
Appropriation of endowment assets for expenditure	(802,400)	(247,500)		(1,049,900)
Endowment net assets, end of year	\$ 20,557,686	\$ 1,584,738	\$ 7,114,433	\$ 29,256,857

Endowment net asset composition by type of fund as of December 31, 2013:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds		\$ 1,527,107	\$ 7,038,735	\$ 8,565,842
Board-designated endowment funds	\$ 19,049,206			19,049,206
Total funds	\$ 19,049,206	\$ 1,527,107	\$ 7,038,735	\$ 27,615,048

UNITED METHODIST CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 13 - ENDOWMENT: (continued)

Changes in endowment net assets for the year ended December 31, 2013:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, beginning of year	\$ 15,978,079	\$ 744,396	\$ 6,909,641	\$ 23,632,116
Investment return:				
Investment earnings	350,122	103,675		453,797
Net appreciation (realized and unrealized)	2,555,046	781,769		3,336,815
Total investment return	<u>2,905,168</u>	<u>885,444</u>		<u>3,790,612</u>
Change in value of trusts held by others		(3,733)	127,904	124,171
Contributions			1,190	1,190
Reclassification of interfund payables	863,845			863,845
Appropriation of endowment assets for expenditure	<u>(697,886)</u>	<u>(99,000)</u>		<u>(796,886)</u>
Endowment net assets, end of year	<u>\$ 19,049,206</u>	<u>\$ 1,527,107</u>	<u>\$ 7,038,735</u>	<u>\$ 27,615,048</u>

UNITED METHODIST CHILDREN'S HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 13 - ENDOWMENT: (continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only):

	<u>2014</u>	<u>2013</u>
Permanently restricted net assets:		
Beneficial interests in perpetual trusts	\$ 2,742,873	\$ 2,669,575
Perpetual endowment funds	<u>4,371,560</u>	<u>4,369,160</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 7,114,433</u>	<u>\$ 7,038,735</u>
Temporarily restricted net assets:		
Scholarships	\$ 1,424,286	\$ 1,377,079
General use	<u>160,452</u>	<u>150,028</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 1,584,738</u>	<u>\$ 1,527,107</u>

Return objectives and risk parameters - The Home has adopted investment and spending policies for endowment assets 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 Home 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 Home 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. The investment policies related to the Home's beneficial interests in perpetual trusts are determined by the Trustees of those perpetual trusts rather than the Home.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the Home 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 Home 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.

UNITED METHODIST CHILDREN'S HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Spending policy and how the objectives relate to spending policy - The Home 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 Home 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%. Thus, over the long-term, allowing the endowment to grow at an average of 2% annually. This is consistent with the Home'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.

NOTE 14 - FAIR VALUE MEASUREMENTS:

Assets presented in the financial statements in the aggregate at fair value include the following:

	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2014:				
Investment securities	\$ 26,400,896		\$ 26,400,896	
Interests in perpetual trusts	2,742,873			\$ 2,742,873
Interests in other trusts	113,088			113,088
Totals	\$ 29,256,857	\$ -	\$ 26,400,896	\$ 2,855,961
December 31, 2013:				
Investment securities	\$ 24,834,830		\$ 24,834,830	
Interests in perpetual trusts	2,669,575			\$ 2,669,575
Interests in other trusts	110,643			110,643
Impaired assets (Note 6)	2,647,527		2,647,527	
Totals	\$ 30,262,575	\$ -	\$ 27,482,357	\$ 2,780,218

UNITED METHODIST CHILDREN'S HOME
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2014 AND 2013

Assets measured at fair value on a recurring basis using significant unobservable inputs (non-market information) at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Beneficial interests in perpetual trusts:		
January 1	\$ 2,669,575	\$ 2,541,671
Change in value of trusts	<u>73,298</u>	<u>127,904</u>
December 31	<u>\$ 2,742,873</u>	<u>\$ 2,669,575</u>
Interest in other trusts:		
January 1	\$ 110,643	\$ 114,376
Change in value of trusts	<u>2,445</u>	<u>(3,733)</u>
December 31	<u>\$ 113,088</u>	<u>\$ 110,643</u>

NOTE 15 - SUBSEQUENT EVENTS:

The Home has evaluated events through April 2, 2015, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2014, have been incorporated into these financial statements.

NOTE 16 - CHANGE IN ACCOUNTING ESTIMATE

In connection with the testing of long-lived assets for recoverability as of December 31, 2013, the Home reviewed the depreciation estimates associated with its real estate. This review indicated that the actual service lives differed from the useful lives that had previously been used for deprecation purposes in the financial statements. As a result, the Home revised the estimated useful lives of certain buildings, effective January 1, 2014. The effect of these changes for the year ended December 31, 2014 was to increase depreciation expense by \$156,112 and decrease the change in unrestricted net assets by \$156,112.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the consolidated financial statements of United Methodist Children's Home as of and for the years ended December 31, 2014 and 2013, and our report thereon dated April 2, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 1 to 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 24 to 26 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and it 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 consolidated financial statements. The consolidating 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jackson Thornton & Co. PC

Montgomery, Alabama
April 2, 2015

UNITED METHODIST CHILDREN'S HOME

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014

(WITH COMPARATIVE TOTALS FOR 2013)

	UMCH, INC. (ENDOWMENT)	UMCH SERVICES, LLC	UMCH PROPERTIES, LLC	UMCH INVESTMENTS, LLC	ELIMINATIONS	TOTALS	2013 TOTALS
ASSETS							
Cash		\$ 412,920				\$ 412,920	\$ 317,348
Accounts receivable		1,856,420		\$ 4,782		1,861,202	959,769
Investment securities	\$ 26,400,896					26,400,896	24,834,830
Interests in perpetual trusts		2,742,873				2,742,873	2,669,575
Other assets		169,514		2,500,000		2,669,514	163,809
Investment in UMCH Services, LLC	4,649,630				\$ (4,649,630)		
Investment in UMCH Properties, LLC	2,913,960				(2,913,960)		
Investment in UMCH Investments, LLC							
Property and equipment, at cost							
Land and paving			\$ 830,461			830,461	830,461
Buildings			3,638,106			3,638,106	3,638,105
Household furniture		372,009				372,009	467,229
Office equipment		246,360				246,360	153,633
Vehicles and outside equipment		426,544				426,544	352,721
Construction in progress		3,025				3,025	50,819
Less: Accumulated depreciation		743,313		1,554,607		2,297,920	2,193,220
Total property and equipment		304,625		2,913,960		3,218,585	3,299,748
Total assets	\$ 33,964,486	\$ 5,486,352	\$ 2,913,960	\$ 2,504,782	\$ (7,563,590)	\$ 37,305,990	\$ 32,245,079

LIABILITIES AND NET ASSETS

	UMCH, INC. (ENDOWMENT)	UMCH SERVICES, LLC	UMCH PROPERTIES, LLC	UMCH INVESTMENTS, LLC	ELIMINATIONS	TOTALS	2013 TOTALS
LIABILITIES:							
Note payable - line of credit		\$ 300,000				\$ 300,000	\$ 225,000
Accounts payable		114,056		\$ 4,782		118,838	115,089
Accrued compensation		275,643				275,643	306,524
Long-term debt		147,023		2,500,000		2,647,023	26,596
Total liabilities		836,722		2,504,782		3,341,504	673,209

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NET ASSETS:							
Unrestricted	\$ 25,265,315	1,793,669	\$ 2,913,960		\$ (4,707,629)	25,265,315	23,006,028
Temporarily restricted	1,584,738	113,088			(113,088)	1,584,738	1,527,107
Permanently restricted	7,114,433	2,742,873			(2,742,873)	7,114,433	7,038,735
Total net assets	33,964,486	4,649,630	2,913,960		(7,563,590)	33,964,486	31,571,870
Total liabilities and net assets	\$ 33,964,486	\$ 5,486,352	\$ 2,913,960	\$ 2,504,782	\$ (7,563,590)	\$ 37,305,990	\$ 32,245,079

UNITED METHODIST CHILDREN'S HOME

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	UMCH, INC. ENDOWMENT	UMCH SERVICES, LLC	UMCH PROPERTIES, LLC	UMCH INVESTMENTS, LLC	ELIMINATIONS	TOTALS	2013 TOTALS
CHANGES IN UNRESTRICTED NET ASSETS:							
Revenues, gains, and net assets released from restrictions:							
Direct public support		\$ 4,399,571				\$ 4,399,571	\$ 2,409,540
Program service revenue		2,003,612				2,003,612	2,187,053
Investment return	\$ 979,245	21,058				1,000,303	3,082,821
Other income		306,024				306,024	336,951
Assets released from restrictions	247,500					247,500	99,000
Total revenues and gains	1,226,745	6,730,265				7,957,010	8,115,365
Expenses and losses:							
Program expenses		4,047,884	\$ 187,658			4,235,542	4,424,557
Supporting services:							
Management and general	9	959,069	53,538			1,012,616	912,355
Fund-raising		449,565				449,565	443,174
Total expenses	9	5,456,518	241,196			5,697,723	5,780,086
Loss on impairment of property	9	5,456,518	241,196			5,697,723	1,305,260
Total expenses and losses							7,085,346
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	1,226,736	1,273,747	(241,196)			2,259,287	1,030,019
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:							
Investment return	302,686					302,686	885,444
Gain (loss) on other assets		2,445				2,445	(3,733)
Assets released from restrictions	(247,500)					(247,500)	(99,000)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	55,186	2,445				57,631	782,711
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS:							
Contributions	2,400					2,400	1,190
Gain on perpetual trusts held by others		73,298				73,298	127,904
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	2,400	73,298				75,698	129,094
INCOME FROM UMCH SERVICES, LLC	1,067,746				\$ (1,067,746)		
INCOME FROM UMCH PROPERTIES, LLC	(241,196)				241,196		
INCREASE (DECREASE) IN NET ASSETS	2,110,872	1,349,490	(241,196)		(826,550)	2,392,616	1,941,824
NET ASSETS AT BEGINNING OF YEAR	31,571,870	3,581,884	3,155,156		(6,737,040)	31,571,870	29,630,046
ASSETS TRANSFERRED DURING THE YEAR	281,744	(281,744)					
NET ASSETS AT END OF YEAR	\$ 33,964,486	\$ 4,649,630	\$ 2,913,960	\$ -	\$ (7,563,590)	\$ 33,964,486	\$ 31,571,870

See Independent Auditor's Report on supplementary information.

