

**INDIANA UNITED METHODIST
CHILDREN'S HOME, INC.
(INDIANA NOT-FOR-PROFIT CORPORATION)**

FINANCIAL STATEMENTS

DECEMBER 31, 2017

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

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Independent Auditors' Report

Board of Trustees
INDIANA UNITED METHODIST CHILDREN'S HOME, INC.
Lebanon, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Indiana United Methodist Children's Home, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the 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 entities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Agreste, Storms + O'Leary, PC

Indianapolis, Indiana
July 27, 2018

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

ASSETS

Current assets:

Cash	\$ 496,989
Accounts receivable, fees, net	685,261
Contributions receivable	656
Benevolent care receivable	33,586
Prepaid expenses	33,637

Total current assets 1,250,129

Property and equipment:

Land and improvements	944,160
Buildings and improvements	15,103,526
Furnishings and equipment	1,104,026
Transportation equipment	328,911

17,480,623

Less accumulated depreciation 4,162,602

13,318,021

Construction in progress 16,000

Property and equipment, net 13,334,021

Total assets \$ 14,584,150

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 110,505
Accrued expenses	563,505

Total current liabilities 674,010

Net assets:

Unrestricted	13,907,949
Temporarily restricted	2,191

Total net assets 13,910,140

Total liabilities and net assets \$ 14,584,150

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues and support:			
Fees	\$ 4,170,726	\$ -0-	\$ 4,170,726
Grant income	1,200,000	-0-	1,200,000
Contributions	277,443	-0-	277,443
School lunch	51,091	-0-	51,091
On-site development	6,789	-0-	6,789
Other revenues	28,631	-0-	28,631
Total revenues and support	5,734,680	-0-	5,734,680
Net assets released from restrictions	11,160	(11,160)	-0-
Expenses:			
Program services	4,510,884	-0-	4,510,884
Supporting services	1,137,552	-0-	1,137,552
Total expenses	5,648,436	-0-	5,648,436
Net support and revenues	97,404	(11,160)	86,244
Gain on disposal of assets	200	-0-	200
Change in net assets	97,604	(11,160)	86,444
Net assets, beginning of year	13,810,345	13,351	13,823,696
Net assets, end of year	\$ 13,907,949	\$ 2,191	\$ 13,910,140

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services					Total
	Group Home	Maintenance	Program Operations	Education	Religious Education	
Salaries	\$ 802,862	\$ 203,680	\$ 690,943	\$ 470,876	\$ 14,692	\$ 2,183,053
Employee benefits	233,083	90,305	227,994	121,408	-0-	672,790
Depreciation	230,146	-0-	10,461	235,376	15,692	491,675
Payroll taxes	63,578	14,902	46,003	39,160	-0-	163,643
Utilities	38,176	47,002	-0-	37,849	-0-	123,027
Insurance	58,687	20,072	14,917	23,457	-0-	117,133
Repairs, maintenance and other purchases	51,889	137,716	11,216	18,002	-0-	218,823
Food and entertainment	119,937	-0-	2,778	2,512	-0-	125,227
Office and computer expenses	3,295	658	31,984	5,379	-0-	41,316
Public relations and marketing	-0-	-0-	-0-	-0-	-0-	-0-
Staff recruitment and training	3,728	-0-	67,805	2,623	-0-	74,156
Transportation and travel	21,546	-0-	14,494	-0-	-0-	36,040
Professional fees	-0-	-0-	-0-	-0-	-0-	-0-
Telephone	19,662	4,015	11,898	7,757	-0-	43,332
Medical, psychiatrist, and therapist	11,818	-0-	59,089	-0-	-0-	70,907
Supplies	-0-	15,070	12,931	2,135	-0-	30,136
Household expenses	26,194	-0-	-0-	-0-	-0-	26,194
Clothing and grooming	32,493	-0-	-0-	-0-	-0-	32,493
School and recreation	-0-	-0-	-0-	30,275	19,910	50,185
Dues	-0-	-0-	-0-	-0-	-0-	-0-
Scholarship	-0-	-0-	1,680	-0-	-0-	1,680
Allowance and wages	9,074	-0-	-0-	-0-	-0-	9,074
Miscellaneous	-0-	-0-	-0-	-0-	-0-	-0-
Total	<u>\$ 1,726,168</u>	<u>\$ 533,420</u>	<u>\$ 1,204,193</u>	<u>\$ 996,809</u>	<u>\$ 50,294</u>	<u>\$ 4,510,884</u>

See accompanying Notes to Financial Statements

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Supporting Services			Total	Total Expenses
	Administration	Public Relations	Fundraising		
Salaries	\$ 560,441	\$ 64,282	\$ 29,369	\$ 654,092	\$ 2,837,145
Employee benefits	176,749	17,823	4,680	199,252	872,042
Depreciation	31,383	-0-	-0-	31,383	523,058
Payroll taxes	35,995	4,337	2,247	42,579	206,222
Utilities	11,163	-0-	-0-	11,163	134,190
Insurance	27,600	1,189	1,147	29,936	147,069
Repairs, maintenance and other purchases	13,820	-0-	-0-	13,820	232,643
Food and entertainment	-0-	3,685	-0-	3,685	128,912
Office and computer expenses	19,195	6,697	2,934	28,826	70,142
Public relations and marketing	-0-	10,664	8,149	18,813	18,813
Staff recruitment and training	-0-	199	-0-	199	74,355
Transportation and travel	5,402	2,386	24	7,812	43,852
Professional fees	44,199	-0-	-0-	44,199	44,199
Telephone	6,550	1,213	1,171	8,934	52,266
Medical, psychiatrist, and therapist	-0-	-0-	-0-	-0-	70,907
Supplies	-0-	-0-	-0-	-0-	30,136
Household expenses	-0-	-0-	-0-	-0-	26,194
Clothing and grooming	-0-	-0-	-0-	-0-	32,493
School and recreation	-0-	-0-	-0-	-0-	50,185
Dues	14,662	-0-	217	14,879	14,879
Scholarship	-0-	-0-	-0-	-0-	1,680
Allowance and wages	-0-	-0-	-0-	-0-	9,074
Miscellaneous	27,980	-0-	-0-	27,980	27,980
Total	\$ 975,139	\$ 112,475	\$ 49,938	\$ 1,137,552	\$ 5,648,436

See accompanying Notes to Financial Statements

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ 86,444
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	523,058
Gain on disposal of assets	(200)
Changes in operating assets and liabilities:	
Accounts receivable, fees	(85,575)
Contribution receivables	10,517
Benevolent care receivable	(25,088)
Prepaid expenses	(5,463)
Accounts payable	60,455
Accrued expenses	(66,884)
Net cash provided by operating activities	<u>497,264</u>
Cash flows from investing activities:	
Purchase of property and equipment	(103,048)
Proceeds from disposition of assets	200
Net cash used in investing activities	<u>(102,848)</u>
Net increase in cash	394,416
Cash, beginning of year	<u>102,573</u>
Cash, end of year	<u><u>\$ 496,989</u></u>

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Indiana United Methodist Children's Home, Inc. (the Home or Organization) provides care, counseling and education for children who have emotional and behavioral problems. The children are placed in the Home by their state or county government or by their guardians. The Home is located in Lebanon, Indiana.

BASIS OF ACCOUNTING

The Organization's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Revenues are recognized in the period in which they are earned. Expenses are recognized in the period in which the related liability is incurred.

FINANCIAL STATEMENT PRESENTATION

The financial statements follow certain provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. This statement established standards for external financial reporting for not-for-profit organizations.

ASC 958 primarily affects the display of financial statements and requires that the amounts for each of three classes of net assets – unrestricted, temporarily restricted, and permanently restricted – be displayed in an aggregate statement of financial position and the amounts of change in each of those classes be displayed in a statement of changes in net assets. The three net asset accounts used include the following:

Unrestricted Net Assets—Funds that have not been restricted in any manner by the donors are referred to as unrestricted net assets and are available for general Organization purposes. At December 31, 2017, the Organization had unrestricted net assets of \$13,907,949.

Temporarily Restricted Net Assets—Temporarily restricted net assets are amounts received from donors or grantors who have specified the use of their gifts or grants for specific purposes. Temporarily restricted net assets are subject to donor-imposed restrictions that will be met by future actions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets. If a donor-stipulated restriction is met in the same year the gift is received, it is recorded as unrestricted support. At December 31, 2017, the Organization had temporarily restricted net assets of \$2,191.

Permanently Restricted Net Assets—Permanently restricted net assets are amounts received wherein the donors have stipulated that the principal be invested and maintained intact in perpetuity. At December 31, 2017, the Organization had no permanently restricted net assets.

DESCRIPTION OF PROGRAMS

Group Home – Direct costs of operating the four group homes on campus and the cost of care associated with youth that are housed, labor and benefit costs of family teachers, assistant family teachers, and overnight family teachers.

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

Maintenance – Maintenance staff and supplies associated with maintaining all campus facilities and grounds.

Program Operations – Program director, human resources, residential supervisors, trainer/evaluator, therapists, case aide, and other labor and associated costs of maintaining the Teaching Family Model of Care in the group homes.

Education – Labor and associated costs of operating the James E. Davis School on campus.

On-Site Development – Costs associated with training other organizations on the Teaching Family Model.

Religious Education – Labor and associated costs with operating the religious education program.

CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as released from restrictions.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include monies in banks and highly liquid investments with maturity dates of less than three months.

USE OF ESTIMATES IN PREPARATION OF THE FINANCIAL STATEMENTS

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 the reported amounts in the financial statements and notes to the financial statements. Actual results could differ from those estimates.

PROPERTY AND EQUIPMENT

Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on the straight-line basis. Repairs and maintenance and small equipment purchases are expensed as incurred. Expenditures that significantly increase asset values or extend useful lives are capitalized. The following is a summary of estimated useful lives used.

Buildings	30-40 years
Building and land improvements	3-27.5 years
Furnishings and equipment	4-12 years
Transportation equipment	5-10 years

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

NOTES TO FINANCIAL STATEMENTS

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IMPAIRMENT OF LONG-LIVED ASSETS

The Home reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended December 31, 2017.

DONATED SERVICES

No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs and various committee assignments.

INCOME TAXES

The Organization is organized as a not-for-profit corporation and, accordingly, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, except for amounts representing unrelated business income. There was no unrelated business income for the years ended December 31, 2017.

The Organization files income tax returns in the U.S. federal jurisdiction and one state. The Organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for the years before the year ended December 31, 2014. As of and for the year ended December 31, 2017, the tax authorities have not proposed any adjustments to the Organization that would result in a material change to the Organization's financial position. No interest or penalties have been recorded in these financial statements. GAAP requires an entity to recognize the financial statement impact of a tax benefit position when it is more likely than not that the position will be sustained upon examination. The Organization does not believe it is taking any uncertain tax benefit positions.

CONTRIBUTIONS RECEIVABLE

Contributions receivable, including pledges and promises to give, are recognized at fair market value as revenues in the period in which there is sufficient evidence in the form of verifiable documentation that an unconditional promise was received. Conditional pledges are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. A provision for doubtful pledges receivable has not been established as management considers all accounts to be collectible.

ACCOUNTS RECEIVABLE

Accounts receivable for program service fees are reported at the amount the Organization expects to receive from child service agencies based on approved rates in place at the time the service is provided. The allowance for doubtful accounts is based on a combination of identified accounts believed to be uncollectible and on a percentage of aged receivable, based on historical experience. The Organization has an allowance for doubtful accounts of \$2,500 at December 31, 2017.

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

NOTES TO FINANCIAL STATEMENTS

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FUNCTIONAL EXPENSES

The allocation of the costs of providing the Home's various programs has been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain indirect costs have been allocated to program services and supporting services based on management's estimates of resources devoted to these activities.

2. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available as of December 31, 2017 for the following purposes:

Board training	\$ 2,178
School building fund	<u>13</u>
	<u>\$ 2,191</u>

3. CONCENTRATION OF CREDIT RISK

The Organization's operating checking account may, in its normal course of business, exceed the limits of insurance imposed by the Federal Deposit Insurance Corporation (FDIC) for single accounts in a bank. In case of bank failure, any uninsured funds might be lost.

The Organization received a significant portion of its revenues from contracts with the State of Indiana Department of Child Services (IN DCS). A reduction in the amount of revenue provided by the State of Indiana Department of Child Services, should this occur, would have a significant impact on the Organization's ability to carry out its activities at current levels. For the year ended December 31, 2017, IN DCS accounted for approximately 73% of the Organization's total revenue and support.

4. OPERATING LEASE

The Organization leases office equipment from various unrelated third parties under noncancelable operating leases. Lease expense was \$36,487 for the year ended December 31, 2017. Minimum future lease payments under all operating leases are summarized as follows:

Years ended December 31,	
2018	\$ 27,808
2019	18,952
2020	<u>12,635</u>
	<u>\$ 59,395</u>

5. RETIREMENT PLAN

The Organization has a 403(b) retirement plan. The plan covers all employees meeting certain eligibility requirements. Employees voluntarily make contributions to the plan based upon limits established under the Internal Revenue Code. In addition, the Organization contributes up to 7% of employee-eligible compensation in matching contributions for employees who participate in the plan. During the year ended December 31, 2017, the Organization's contributions to the plan were \$105,792. These amounts are included in employee benefits on the statements of functional expenses.

INDIANA UNITED METHODIST CHILDREN'S HOME, INC.

NOTES TO FINANCIAL STATEMENTS

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6. SELF-INSURED HEALTH INSURANCE PLAN

The Organization maintains a self-insured health insurance plan. The Organization has purchased specific and aggregate levels of reinsurance with an insurance provider. The specific stop limit as of December 31, 2017 is \$60,000 per individual, and a group aggregate in excess of individual limits of \$45,000. The Organization's policy includes a minimum annual aggregate deductible amount of \$562,633 for the policy period ending during the year ended December 31, 2017. This plan is administered by a third party. During the year ended December 31, 2017, total expense incurred related to the plan was \$747,207. These amounts are included in employee benefits on the statement of functional expenses. The Organization also has a fully insured transplant policy with a limit of \$1,000,000 per individual.

7. RELATED-PARTY TRANSACTIONS

Indiana United Methodist Children's Home Foundation Inc. (the Foundation) was formed in 2015 for the purpose of holding and managing investment and endowment funds for the continued support of the charitable, educational and other exempt purposes of the Home. Effective January 1, 2016, all investments and endowment funds of the Home were transferred to the Foundation. According to the bylaws of the Foundation, the majority of the Foundation's directors shall be appointed by the Board of Trustees of the Home. In addition, all resources of the Foundation are held for the benefit of the Home.

Summarized unaudited financial information of the Foundation as of and for the year ended December 31, 2017 are as follows:

Total assets	\$ 48,176,929
Total liabilities	<u>25,000</u>
Net assets	<u>\$ 48,151,929</u>
Total income	\$ 6,061,401
Total expenses	<u>1,529,130</u>
Net income	<u>\$ 4,532,271</u>

During the year ended December 31, 2017, the Home recognized \$1,200,000 in grant income for general support of the Home's activities and \$25,000 in other revenues related to a shared services agreement from the Foundation.

8. SUBSEQUENT EVENTS

In accordance with ASC Topic 855, *Subsequent Events*, the Organization has evaluated subsequent events through July 27, 2018, which is the date these financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure in the financial statements.