

**Financial Statements and
Other Financial Information**

**FLORIDA UNITED METHODIST
CHILDREN'S HOME, INC.**

December 31, 2017

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Financial Statements and Other Financial Information

December 31, 2017

(With Independent Auditor's Report Thereon)

FLORIDA UNITED METHODIST CHILDREN’S HOME, INC.

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SCHAFER, TSCHOPP, WHITCOMB, MITCHELL & SHERIDAN, LLP

Certified Public Accountants

Michael R. Schafer, CPA
Thomas R. Tschopp, CPA
Tom V. Whitcomb, CPA

541 S. Orlando Avenue, Suite 312
Maitland, Florida 32751
(407) 875-2760

Joseph P. Mitchell, CPA
Stephen J. Sheridan, CPA
Daniel M. Hinson, CPA

Independent Auditor's Report

The Board of Trustees
Florida United Methodist Children's Home, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Florida United Methodist Children's Home, Inc. which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for 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 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 Florida United Methodist Children's Home as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Home's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was performed for the purpose of forming an opinion on the financial statements of Florida United Methodist Children's Home, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance, is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and Section 215.97 of the Florida Statutes of the Florida Single Audit Act and is not a required part of the 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 2018 on our consideration of the Florida United Methodist Children's Home, Inc's internal control over financial reporting and on our tests of its compliance with certain provisions of

laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Florida United Methodist Children's Home, Inc.'s internal control over financial reporting and compliance.

Schaffer, Tschoff, Whitcomb, Mitchell & Shuilen, LLP

March 1, 2018
Maitland, Florida

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Statement of Financial Position

December 31, 2017

(With summarized totals for December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
Assets:					
Cash	\$ 1,970,441	3,739,758	-	5,710,199	7,592,049
Contributions and other receivables	735,551	206,271	-	941,822	1,190,787
Other assets	254,472	-	-	254,472	193,183
Interfund receivables (payables)	(53,620)	(7,720)	61,340	-	-
Investments (note 2)	21,663,096	1,051,978	21,409,707	44,124,781	37,515,125
Land, buildings and equipment (note 3)	18,564,312	-	-	18,564,312	17,942,740
Beneficial interest in trusts (note 4)	-	1,961,499	5,074,698	7,036,197	6,434,541
Total assets	\$ 43,134,252	6,951,786	26,545,745	76,631,783	70,868,425
Liabilities:					
Accounts payable	\$ 563,035	-	50,000	613,035	357,617
Accrued expenses	719,979	-	-	719,979	641,414
Annuity payment liability (note 5)	-	-	1,309,969	1,309,969	1,419,532
Total liabilities	1,283,014	-	1,359,969	2,642,983	2,418,563
Net Assets:					
Unrestricted:					
Available for operations	9,139,090	-	-	9,139,090	7,581,221
Board designated funds	14,147,836	-	-	14,147,836	12,558,633
Investment in property and equipment	18,564,312	-	-	18,564,312	17,942,740
Total unrestricted	41,851,238	-	-	41,851,238	38,082,594
Temporarily restricted (note 7)	-	6,951,786	-	6,951,786	5,543,082
Permanently restricted (notes 7 and 8)	-	-	25,185,776	25,185,776	24,824,186
Total net assets	41,851,238	6,951,786	25,185,776	73,988,800	68,449,862
Total liabilities and net assets	\$ 43,134,252	6,951,786	26,545,745	76,631,783	70,868,425

See accompanying notes to financial statements.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Statement of Activities

Year Ended December 31, 2017

(With summarized totals for the year ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
Revenues and Support:					
Contributions	\$ 5,877,693	1,349,217	115,983	7,342,893	9,758,244
Support payments	5,030,300	-	-	5,030,300	5,200,393
Child care center	835,917	-	-	835,917	816,277
Rental income	47,727	-	-	47,727	41,542
Interest and dividends	937,798	17,349	-	955,147	735,216
Net realized and unrealized gains (losses) on investments, net	5,064,313	128,120	-	5,192,433	2,044,567
Gain on sale of assets	8,588	-	-	8,588	(14,747)
Split-interest agreements	-	170,540	245,607	416,147	33,548
Miscellaneous income	436,421	-	-	436,421	464,725
Net assets released from restriction:					
Satisfaction of purpose restrictions	256,522	(256,522)	-	-	-
Total revenues and support	18,495,279	1,408,704	361,590	20,265,573	19,079,765
Expenses:					
Program services:					
Residential care	9,932,813	-	-	9,932,813	9,747,527
Independent living and scholarship	665,491	-	-	665,491	628,993
Foster care	946,666	-	-	946,666	808,414
Child care center	1,062,962	-	-	1,062,962	971,674
Total program services	12,607,932	-	-	12,607,932	12,156,608
Supporting services:					
Management and general Fundraising	1,105,267	-	-	1,105,267	1,047,028
	1,013,436	-	-	1,013,436	1,035,292
Total supporting services	2,118,703	-	-	2,118,703	2,082,320
Total expenses	14,726,635	-	-	14,726,635	14,238,928
Change in net assets	3,768,644	1,408,704	361,590	5,538,938	4,840,837
Net assets at beginning of year	38,082,594	5,543,082	24,824,186	68,449,862	63,609,025
Net assets at end of year	\$ 41,851,238	6,951,786	25,185,776	73,988,800	68,449,862

See accompanying notes to financial statements.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Statement of Functional Expenses

Year Ended December 31, 2017

(With summarized totals for the year ended December 31, 2016)

	Program Services				Supporting Services		
	Residential Care	Independent Living	Foster Care	Child Care Center	Management and General		Total 2017
					Total	Fundraising	
Salaries	\$ 5,001,040	378,254	580,615	682,637	6,642,546	479,703	7,536,308
Employee benefits	1,117,471	91,558	112,943	206,126	1,528,098	83,464	1,573,267
Payroll taxes	383,574	27,509	43,114	49,514	503,711	32,413	570,376
Total salaries and related expenses	6,502,085	497,321	736,672	938,277	8,674,355	595,580	9,679,951
Utilities	699,934	18,512	25,145	17,553	761,144	25,903	894,446
Materials, supplies and postage	238,157	10,000	22,489	19,289	289,935	227,366	503,060
Repairs and maintenance	383,929	-	111	-	384,040	27,587	407,417
Travel and related expenses	36,423	37	68,360	632	105,452	23,483	113,085
Insurance	145,154	3,376	3,376	3,376	155,282	5,064	168,785
Food	206,703	-	35,00	42,011	248,749	6,481	255,230
Professional fees	341,248	9,375	3,500	7,133	361,256	24,640	457,374
Education and training programs	109,987	-	49,016	2,372	161,375	5,310	191,939
Scholarship payments	-	72,916	-	-	72,916	-	72,916
Conferences and memberships	10,176	885.00	5,781	762	17,604	4,066	36,605
Special events	137,332	26,983	4,929	5,471	174,715	26,968	203,871
Real estate assessments	-	-	-	-	-	-	7,460
Recruitment	-	-	1,166	-	1,166	1,859	20,075
Depreciation	1,121,685	26,086	26,086	26,086	1,199,943	39,129	1,304,286
Total expenses	\$ 9,932,813	665,491	946,666	1,062,962	12,607,932	1,013,436	14,238,928

See accompanying notes to financial statements.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Statement of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,538,938	4,840,837
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,304,286	1,309,059
(Gains) losses on investments	(5,192,433)	(2,044,567)
Gains on beneficial interest in trusts	(601,656)	(271,749)
(Gain) loss on disposition of property and equipment	(8,588)	14,747
Cash provided by (used for) changes in:		
Contributions and other receivables	248,965	(373,909)
Other assets	(61,289)	12,308
Accounts payable and accrued expenses	333,983	172,246
Annuity payment liability	(109,563)	(50,327)
	<u>1,452,643</u>	<u>3,608,645</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from sale of property and equipment	18,300	138,231
Acquisition of land, buildings and equipment	(1,935,570)	(1,276,436)
(Purchase) sale of investments, net	(1,417,223)	567,760
	<u>(3,334,493)</u>	<u>(570,445)</u>
Net cash used in investing activities		
Net change in cash	(1,881,850)	3,038,200
Cash at beginning of year	<u>7,592,049</u>	<u>4,553,849</u>
Cash at end of year	<u>\$ 5,710,199</u>	<u>7,592,049</u>

See accompanying notes to financial statements.

FLORIDA UNITED METHODIST CHILDREN’S HOME, INC.

Notes to Financial Statements

December 31, 2017

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Florida United Methodist Children’s Home, Inc. (the “Home”) was incorporated in 1908 as a not-for-profit corporation. The purpose of the Home is to care for children who otherwise cannot be provided for. The Home is governed by a Board of Trustees which are Florida Methodist Church members or clergy. Nominations for membership come from the Board and are approved by the Florida Annual Conference of The United Methodist Church.

(b) Basis of Presentation

The accompanying financial statements are presented on the accrual basis and represent the financial position and results of operations of the Home.

The financial statements are prepared on an entity wide basis, to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by aggregating all funds into one set of financial statements and classifying fund balances and transactions into three classes of net assets – unrestricted, temporarily restricted or permanently restricted as follows:

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations and net assets that have been designated for a specific purpose by the board of directors.

Temporarily Restricted Net Assets

Temporarily restricted amounts will become either unrestricted or permanently restricted when the conditions of the temporary restrictions are met. Temporarily restricted assets consist of amounts held in the designated fund for the construction or purchase of buildings or equipment and amounts held in the education scholarship fund which principal and income is used for the education of qualified candidates in the Home.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(1) **Organization and Summary of Significant Accounting Policies - Continued**

(b) **Basis of Presentation - Continued**

Permanently Restricted Net Assets

General endowment fund net assets are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. Annually, a portion of the income is approved by the Board for use in the Home's operations.

Annuity fund net assets represent resources contributed to the Home where specified amounts are to be paid to the donor while living. Any funds remaining at the death of the donor revert to the use of the Home, primarily being designated for transfer to the general endowment fund.

Education/endowment fund net assets are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. The income is available to provide college scholarships for former residents of the Home.

(c) **Cash and Cash Equivalents**

For purposes of cash flows, the Home considers all short-term debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

(d) **Contributions Receivable**

Contributions receivable represent monies due or pledged to the Home that were not collected as of December 31, 2017. Contributions receivable are stated at the amounts management expects to collect from outstanding balances. As of December 31, 2017, no allowance for doubtful accounts has been provided since management considers all accounts to be collectible.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(1) **Organization and Summary of Significant Accounting Policies - Continued**

(e) **Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices. Investments that are measured at fair value on recurring basis are classified by level based on an established fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The estimated fair value of alternative investments is based on valuations provided by the external investment managers as of the date of their most recent audited financial statements, which are then adjusted for cash receipts, cash disbursements, securities, distributions, and additional investment gains and losses on the underlying securities through December 31, 2017. The Home believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Gains and losses on market value adjustments and sales are recognized within the statement of activities. Investment income from restricted investments is reported as increases in unrestricted net assets if the restriction expires in the same reporting period.

(f) **Land, Buildings, and Equipment**

Land, buildings, and equipment acquisitions are recorded at cost when purchased, or at fair market value at date of gift when donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets which range from 3 - 30 years. Expenditures of \$1,000 or more with an estimated useful life in excess of one year are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

(g) **Contributions**

The Home reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support. The majority of contributions originate either from United Methodist laity or from United Methodist churches in the State of Florida.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(1) **Organization and Summary of Significant Accounting Policies - Continued**

(g) **Contributions - Continued**

The Home reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Home reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(h) **Donated Goods and Services**

Significant non-cash asset contributions are recorded at fair market value when received. No amounts have been recorded in the financial statements for contributed services. There is no objective basis for measuring the fair market value of services provided by volunteers to program or fund raising activities, and such services did not require specialized skills.

(i) **Income Taxes**

The Organization is exempt from federal income tax under provision of Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. Consequently, no provision for income taxes has been included in the accompanying financial statements.

Under Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification 740, an entity's income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected by a taxing authority for examination generally ends at the later of three years after the initial due date of the return or three years after the return is filed. At December 31, 2017, the Home's tax years that remain subject to examination are 2014 through 2016.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(1) **Organization and Summary of Significant Accounting Policies - Continued**

(i) **Income Taxes - Continued**

The Home follows the provisions of FASB ASC (Accounting Codification) No. 740, Accounting for Uncertainty in Income Taxes. The Home has not recognized any respective liability for unrecognized tax benefits as it has no known tax positions that would subject the Home to any material income tax exposure. A reconciliation of the beginning and ending amount of unrecognized tax benefits is not included, nor is there any interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses as there are no unrecognized tax benefits.

(j) **Functional Allocation of Expenses**

The costs of providing the various programs, fund-raising and other activities of the Home have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the activities benefited.

(k) **Use of Estimates**

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

(l) **Fair Value Measurement**

ASC 820, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Quoted prices for similar assets in active markets or inputs that are observable.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(1) **Organization and Summary of Significant Accounting Policies - Continued**

(l) **Fair Value Measurement - Continued**

Level 3 – Inputs that are unobservable and significant to the fair value measurement (i.e. cash flow modeling).

Asset or liability's fair value measurement level within the value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of the 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.

The Home did not change its valuation techniques during the year.

(m) **Concentrations of Credit and Market Risk**

The Home maintains its cash and cash equivalents in deposit and money market accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Home has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

The Home receives a large portion of its support by and through churches in the Florida Annual Conference of The United Methodist Church. That continued association and support is necessary for the Home to operate.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(1) **Organization and Summary of Significant Accounting Policies - Continued**

(n) **Prior Year Comparative Data**

The financial statements include certain prior year summarized comparative information. This information has been presented in order to provide an understanding of changes in the Home's financial position and activities. The prior year information in the statement of activities is presented in total but not by net asset class and, as such, does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In addition, certain amounts have been reclassified in order to conform with the current year's presentation.

(o) **Subsequent Events**

In preparing these financial statements, the Home has evaluated subsequent events and transactions for potential recognition and disclosure through March 1, 2018, which is the date the financial statements were available to be issued.

(2) **Investments**

The following table summarizes the valuation of the Home's financial assets measured at fair value on a recurring basis as of December 31, 2017. All of the Home's investments are considered level 1 instruments and consist of the following at December 31, 2017.

Cash	\$ 6,150,589
Inflation protected	3,436,939
U.S. Equity securities	13,097,587
U.S. Fixed income securities	9,259,265
International equities	12,013,665
Other	<u>166,736</u>
Total investments	<u>\$ 44,124,781</u>

Investment advisory fees expense totaling approximately \$121,500 for the year ended December 31, 2017 are included in net realized and unrealized gains on investments. Unrealized gains of approximately \$2,804,810 are included in net realized and unrealized gains on the accompanying statement of activities.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(3) **Land, Buildings and Equipment**

At December 31, 2017, land, buildings and equipment consist of the following:

Land	\$ 3,641,749
Land improvements	3,469,830
Buildings and improvements	25,724,820
Furniture, fixtures and equipment	8,008,710
Vehicles	2,555,006
Construction in progress	1,740,548
	<hr/>
	45,140,663
Less accumulated depreciation	(26,576,351)
	<hr/>
	\$ 18,564,312

(4) **Beneficial Interest in Trusts**

The Home is the beneficiary of various lead, remainder and perpetual trusts. The Home is an income beneficiary of nineteen separate perpetual trusts valued at \$5,074,698 as of December 31, 2017. These trusts are stated at the present value of the anticipated future cash flows to be received from the trusts which approximates the fair value of the assets that produce the income. These perpetual trusts generate unrestricted dividend income approximating \$165,000 per year. The Home is also the recipient of income from two charitable lead trusts and has a remainder interest in twelve irrevocable charitable remainder trusts. These two split-interest gifts are valued at \$1,961,499 as of December 31, 2017.

(5) **Annuity Payment Liability**

The Home offers charitable gift annuities whereby a donor contributes an agreed irrevocable amount in exchange for a promise of the Home to pay a fixed amount for a specified period of time to specified beneficiaries. Contribution revenue is recognized at the establishment of the annuity for the difference between the fair value of the assets received and the liability incurred. Annuities payable are stated at the present value of future cash flows expected to be paid to the donor during the donor's lifetime. The present value of future benefits expected to be paid out to beneficiaries as of December 31, 2017 is approximately \$1,310,000. State law requires that organizations entering into charitable gift annuity contracts maintain reserves in connection with those contracts to ensure that funds are available to pay future benefits to donors. The Home provides for its future obligations under charitable gift annuities through a segregated investment

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(5) Annuity Payment Liability - Continued

account. The required reserve amount is based on a multiple of the actuarial present value of the related annuity obligations. A portion of the Home's investments is restricted for the purpose of meeting this requirement. At December 31, 2017, the Home was in compliance with the reserve requirement. Total net assets associated with split-interest agreements included within the annuity fund amount to \$(171,549) at December 31, 2017.

(6) Pension Plan

The Home has a defined contribution pension plan administered by the General Board of Pensions of the United Methodist Church. The Plan is presently funded at varying amounts depending on the hire date of the eligible employee. Employees hired on or before December 31, 2012 receive a non-matching contribution of 10% of eligible compensation. Employees hired during the 2013 calendar year receive a non-matching contribution of 5% and are eligible for a matching contribution up to 2.5% of eligible compensation. Employees hired on or after January 1, 2014 are eligible for a matching contribution up to 5% of eligible compensation. To be eligible, employees must have been employed for at least six months and be at least twenty-one years old, and work at least 2000 hours per year. Vesting begins after one year of employment, with employees becoming fully vested upon completion of five years of service. Total pension expense for the year ended December 31, 2017 was approximately \$375,408.

(7) Restricted Assets

Restricted assets of the Home consist of the following funds at December 31, 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Designated Fund	\$ 5,854,057	-
Education Scholarship Fund	1,097,729	-
Annuity Fund	-	(171,549)
General Endowment Fund	-	22,349,607
Education Endowment Fund	-	3,007,718
	<u>\$ 6,951,786</u>	<u>25,185,776</u>

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(7) **Restricted Assets - Continued**

Temporarily restricted net assets are available for the following purposes or time restrictions:

Madison Youth Ranch	\$ 859,835
Education scholarships	1,097,729
Beneficial interest in trusts	1,961,499
Pledges receivable	206,271
Foster care	530,048
New building construction	1,723,904
Other	572,500
	<hr/>
	\$ 6,951,786

(8) **Endowments**

The Board of Directors of the Home has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) 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 FUPMIFA. Any amount not appropriated for expenditure will be reclassified, subject to the original endowment restrictions imposed by the donor. In accordance with FUPMIFA, 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 purposes of the organization 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 organization
7. The investment policies of the organization

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(8) **Endowments - Continued**

The externally controlled endowment and beneficial interest held by third party are invested according to third party decisions; the Organization has no control over the investment policy.

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. Under this policy the endowment assets are invested in a manner that focuses on long-term capital appreciation while achieving predictable and modest current income requirements.

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.

Spending Policies and How the Investment Objectives Relate to Spending Policy

The Home has a policy of appropriating for distribution each year approximately 4% to 5% of the trailing 36-month average balance of the combined endowment funds. In establishing this policy, the Home considered the long-term expected return on its endowment. Accordingly, over the long term, the Home expects the current spending policy to allow its endowment to grow. This is consistent with the Home's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund:

<u>December 31, 2017</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds:			
Internally controlled	\$ 1,051,978	18,922,216	19,974,194
Externally controlled, Conference	-	1,188,862	1,188,862
Externally controlled, beneficial Interest	-	5,074,698	5,074,698
	<u>\$ 1,051,978</u>	<u>25,185,776</u>	<u>26,237,754</u>

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(8) **Endowments - Continued**

Changes in endowment net assets:

<u>December 31, 2017</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowments, beginning of year	\$ 954,303	24,824,186	25,778,489
Investment return:			
Donations	-	115,983	115,983
Changes in value of split interest Agreements	-	245,607	245,607
Net appreciation (realized and unrealized)	97,675	-	97,675
Endowments, end of year	<u>\$ 1,051,978</u>	<u>25,185,776</u>	<u>26,237,754</u>

Other Financial Information

**FLORIDA UNITED METHODIST
CHILDREN'S HOME, INC.**

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Schedule of Expenditures of Federal Awards and State Financial Assistance

Year Ended December 31, 2017

<u>Federal Assistance</u>	<u>CFDA/CFSA Number</u>	<u>Contract Grant Number</u>	<u>Expenditure</u>
U.S. Department of Health and Human Services			
Passed through Florida Department of Children	93.658	D12-17-FUMCH-RGC	\$ 1,477,137
and Families (Residential Group Care	93.667	D12-17-FUMCH-RGC	808,141
Foster Care and Child Welfare Contracts)	93.558	D12-17-FUMCH-CPA	25,222
	93.556	D12-17-FUMCH-CPA	473
	93.659	D12-17-FUMCH-CPA	24,008
	93.645	D12-17-FUMCH-CPA	7,882
			<u>2,342,863</u>
Total USDHHS			
U.S. Department of Agriculture			
Passed through Florida Department of Education			
(National School Lunch Program):			
Breakfast	10.553	01-0155	46,529
Lunch	10.555	01-0155	66,825
Passed through - State Department of Agriculture			
(Non-cash assistance, commodities)	10.555	24077	13,691
			<u>127,045</u>
Total USDA			
U.S. Department of Health			
Passed through Florida Department of Health			
Child Care Food Program Grant	10.558	I-3579	40,731
			<u>40,731</u>
Total Expenditures of Federal Awards			<u>\$ 2,510,639</u>
<u>State Assistance</u>			
Florida Department of Children and Families		D17-18 RGC-FUMCH	
Residential Group Care Program Services	60.074	ECAH-TFC-UMC-FY16	\$ 726,280
			<u>726,280</u>
Total Expenditures of State Financial Assistance			<u>\$ 726,280</u>

See accompanying notes to financial statements.

FLORIDA UNITED METHODIST CHILDREN’S HOME, INC.

**Notes to the Schedule of Expenditures of Federal Awards
and State Financial Assistance**

Year ended December 31, 2017

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the “Schedule”) includes the federal and state award activity of Florida United Methodist Children’s Home, Inc. under programs of the federal and state governments for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and Section 215.97 of the Florida Statutes of the Florida Single Audit Act and Chapter 691-5, Rules of the Florida Department of Financial Services, Florida Administrative Code, Schedule of Expenditures of State Financial Assistance. Because the Schedule presents only a selected portion of the operations of Florida United Methodist Children’s Home, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Florida United Methodist Children’s Home, Inc.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Florida United Methodist Children’s Home, Inc. has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SCHAFER, TSCHOPP, WHITCOMB, MITCHELL & SHERIDAN, LLP

Certified Public Accountants

Michael R. Schafer, CPA
Thomas R. Tschopp, CPA
Tom V. Whitcomb, CPA

541 S. Orlando Avenue, Suite 312
Maitland, Florida 32751
(407) 875-2760

Joseph P. Mitchell, CPA
Stephen J. Sheridan, CPA
Daniel M. Hinson, CPA

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Board of Directors
Florida United Methodist Children's Home, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Florida United Methodist Children's Home, Inc., which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 1, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Florida United Methodist Children's Home, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Florida United Methodist Children's Home, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Florida United Methodist Children's Home, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Florida United Methodist Children's Home, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schatz, Tschoff, Whitcomb, Mitchell & Shuilen, LLP

Maitland, Florida
March 1, 2018

SCHAFER, TSCHOPP, WHITCOMB, MITCHELL & SHERIDAN, LLP

Certified Public Accountants

Michael R. Schafer, CPA
Thomas R. Tschopp, CPA
Tom V. Whitcomb, CPA

541 S. Orlando Avenue, Suite 312
Maitland, Florida 32751
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Joseph P. Mitchell, CPA
Stephen J. Sheridan, CPA
Daniel M. Hinson, CPA

Report on Compliance for Each Major Federal Program and State Project and on Internal Control Over Compliance Required by the Uniform Guidance and the Florida Single Audit Act

Independent Auditor's Report

To the Board of Directors
Florida United Methodist Children's Home, Inc.

Report on Compliance for Each Major Federal Program and State Project

We have audited the Florida United Methodist Children's Home, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and in the State of Florida *State Projects Compliance Supplement* that could have a direct and material effect on each of Florida United Methodist Children's Home, Inc.'s major federal programs and state projects for the year ended December 31, 2017. Florida United Methodist Children's Home, Inc.'s major federal program and state project is identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal and state statutes, regulations, and the terms and conditions applicable to its federal programs and state projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Florida United Methodist Children's Home, Inc.'s major federal programs and state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Section 215.97 of the Florida

Statutes of the Florida Single Audit Act. Those standards, the Uniform Guidance, and the Florida Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on test basis, evidence about Florida United Methodist Children's Home, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state project. However, our audit does not provide a legal determination of Florida United Methodist Children's Home, Inc.'s compliance.

Opinion on Each Major Federal Program and State Project

In our opinion, Florida United Methodist Children's Home, Inc. complied, in all material respects, with the types of requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of Florida United Methodist Children's Home, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements referred to above. In planning and performing our audit of compliance, we considered Florida United Methodist Children's Home, Inc.'s internal control over compliance with the types of requirements that could have a direct material effect on each major federal program and state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state project and to test and report on internal control over compliance in accordance with the Uniform Guidance and the Florida Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Florida United Methodist Children's Home, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the Florida Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Schacter, Tschagg, Whiteman, Mitchell & Shuilen, LLP

Maitland, Florida
March 1, 2018

Florida United Methodist Children's Home, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

A. Summary of the Audit Results

1. The Auditor's report expresses an unmodified opinion on the financial statements of Florida United Methodist Children's Home, Inc.
2. No significant deficiencies or material weaknesses were disclosed during the audit of the financial statements and is reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Florida United Methodist Children's Home, Inc. were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award program and the major state project were disclosed during the audit in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Federal Major Program and Major State Project and on Internal Control Over Compliance in Accordance with the Uniform Guidance and the Florida Single Audit Act.
5. The auditors' report on compliance for the major Federal award program and major State project for Florida United Methodist Children's Home, Inc. expresses an unqualified opinion.
6. There are no audit findings relative to the major Federal award program and major state project for Florida United Methodist Children's Home, Inc.
7. The programs tested as a major federal program and as the major state project were the Federal Program CFDA #93.658 - Residential Group Care and Foster Care Contract, and the State Project CSFA #60.074 - Residential Group Care Program Services.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Auditee did qualify as a low-risk auditee.

(Continued)

**Florida United Methodist Children's Home, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017**

B. Financial Statement Findings

1. No matters reported.

C. Major Federal Award Findings and Questioned Costs

1. No matters reported.

D. Major State Project Findings and Questioned Costs

1. No matters reported.

E. Summary Schedule of Prior Audit Finding

1. No Summary Schedule of Prior Audit Findings (see AG Rule 10.656(3)(d)(5)) is required because there are no prior audit findings related to federal programs or state projects.

End of Schedule of Findings and Questioned Costs