

**Financial Statements and
Other Financial Information**

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

December 31, 2012

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Financial Statements and Other Financial Information

December 31, 2012

(With Independent Auditor's Report Thereon)

FLORIDA UNITED METHODIST CHILDREN’S HOME, INC.

Table of Contents

Independent Auditor’s Report1

Financial Statements:

 Statement of Financial Position4

 Statement of Activities5

 Statement of Functional Expenses6

 Statement of Cash Flows7

Notes to Financial Statements.....8

Schedule of Governmental Financial Assistance.....21

Notes to the Schedule of Governmental Financial Assistance22

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*23

Report on Compliance for Each Major Federal Program and State Project;
Report on Internal Control Over Compliance, and Report on the Schedule
of Governmental Financial Assistance Required by OMB Circular A-13325

Schedule of Findings and Questioned Costs.....28

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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, 2012, 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, 2012, 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 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 22, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 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 governmental financial assistance, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Section 215.97 of the Florida Statutes of the Florida Single Audit Act is presented for purposes of additional analysis 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 12, 2013 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.

Schacter, Tschopp, Whittemat, Mitchell & Shuilen, LLP

March 12, 2013

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Statement of Financial Position

December 31, 2012

(With summarized restated totals for December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012	2011 Restated
Assets:					
Cash	\$ 2,538,008	706,438	-	3,244,446	2,822,255
Contributions and other receivables	1,860,040	832,230	-	2,692,270	2,817,835
Other assets	201,634	-	115,762	317,396	583,779
Interfund receivables (payables)	(1,739,885)	4,222,179	(2,482,294)	-	-
Land, buildings and equipment (note 3)	15,663,516	-	-	15,663,516	14,304,050
Investments (note 2)	12,783,069	901,191	17,525,607	31,209,867	28,368,994
Beneficial interest in trusts	-	1,280,508	3,427,612	4,708,120	4,155,197
Total assets	\$ 31,306,382	7,942,546	18,586,687	57,835,615	53,052,110
Liabilities:					
Accounts payable	\$ 281,085	-	165,761	446,846	361,915
Accrued expenses	494,410	-	-	494,410	553,271
Annuity payment liability (note 5)	-	-	1,618,420	1,618,420	1,845,374
Total liabilities	775,495	-	1,784,181	2,559,676	2,760,560
Net Assets:					
Unrestricted:					
Available for operations	2,881,316	-	-	2,881,316	1,890,675
Board designated funds	11,986,055	-	-	11,986,055	11,542,626
Investment in property and equipment	15,663,516	-	-	15,663,516	14,304,050
Total unrestricted	30,530,887	-	-	30,530,887	27,737,351
Temporarily restricted (note 6)	-	7,942,546	-	7,942,546	5,069,262
Permanently restricted as restated (notes 6 and 7)	-	-	16,802,506	16,802,506	17,484,937
Total net assets	30,530,887	7,942,546	16,802,506	55,275,939	50,291,550
Total liabilities and net assets	\$ 31,306,382	7,942,546	18,586,687	57,835,615	53,052,110

See accompanying notes to financial statements.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Statement of Activities

Year Ended December 31, 2012

(With summarized restated totals for the year ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012	2011 Restated
Revenues and Support:					
Contributions	\$ 9,422,807	2,377,965	45,155	11,845,927	8,716,244
Support payments	4,023,023	-	-	4,023,023	3,397,838
Child care center	614,994	-	-	614,994	616,354
Rental income	33,724	-	-	33,724	37,628
Interest and dividends	770,608	40,310	-	810,918	841,813
Net realized and unrealized gains (losses) on investments, net	1,963,175	138,853	-	2,102,028	(1,348,638)
Split-interest agreements	-	-	192,955	192,955	(227,959)
Miscellaneous income	57,398	-	-	57,398	(11,512)
Net assets released from restriction:					
Satisfaction of purpose restrictions	604,385	(604,385)	-	-	-
Total revenues and support	17,490,114	1,952,743	238,110	19,680,967	12,021,768
Expenses:					
Program services:					
Residential care	8,568,380	-	-	8,568,380	7,287,913
Independent living and scholarship	824,231	-	-	824,231	725,545
Foster care	1,305,300	-	-	1,305,300	769,608
Child care center	909,362	-	-	909,362	847,328
Total program services	11,607,273	-	-	11,607,273	9,630,394
Supporting services:					
Management and general	1,114,154	-	-	1,114,154	1,243,558
Fundraising	1,975,151	-	-	1,975,151	1,524,759
Total supporting services	3,089,305	-	-	3,089,305	2,768,317
Total expenses	14,696,578	-	-	14,696,578	12,398,711
Change in net assets	2,793,536	1,952,743	238,110	4,984,389	(376,943)
Net assets at beginning of year, as restated (note 8)	27,737,351	5,989,803	16,564,396	50,291,550	50,668,493
Net assets at end of year	\$ 30,530,887	7,942,546	16,802,506	55,275,939	50,291,550

See accompanying notes to financial statements.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Statement of Functional Expenses

Year Ended December 31, 2012
(With summarized totals for the year ended December 31, 2011)

	Program Services					Management and General			Supporting Services			Total 2011
	Residential Care	Independent Living	Foster Care	Child Care Center	Total	General	Fundraising	Supporting	Total 2012	Total 2011		
											Total	
Salaries	\$ 4,250,263	295,911	802,940	603,497	5,952,611	568,496	789,762	1,358,258	7,310,869	6,077,108		
Employee benefits	920,038	43,980	166,886	152,610	1,283,514	71,877	164,990	236,867	1,520,381	1,336,342		
Payroll taxes	295,077	21,791	58,015	42,988	417,871	45,058	48,542	93,600	511,471	428,766		
Total salaries and related expenses	5,465,378	361,682	1,027,841	799,095	7,653,996	685,431	1,003,294	1,688,725	9,342,721	7,842,216		
Utilities	772,388	17,963	17,963	17,962	826,276	44,907	26,943	71,850	898,126	757,542		
Materials, supplies and postage	297,041	23,372	106,528	15,756	442,697	39,551	336,960	376,511	819,208	699,952		
Repairs and maintenance	594,641	16,997	28,449	-	640,087	57,172	311,326	368,498	1,008,585	634,085		
Travel and related expenses	14,929	728	59,247	336	75,240	32,405	97,353	129,758	204,998	160,257		
Insurance	129,337	3,008	3,008	3,008	138,361	7,520	4,512	12,032	150,393	140,978		
Food	216,166	998	108	49,380	266,652	1,618	897	2,515	269,167	228,828		
Professional fees	17,470	-	3,283	100	20,853	43,986	132,043	176,029	196,882	297,527		
Education and training programs	57,469	3,803	-	670	61,942	9,189	7,823	17,012	78,954	89,784		
Scholarship payments	-	218,444	-	-	218,444	-	-	-	218,444	204,883		
Conferences and memberships	15,220	553	5,614	1,002	22,389	52,522	16,419	68,941	91,330	59,616		
Special events	52,972	154,980	29,682	350	237,984	8,611	-	8,611	246,595	198,184		
Real estate assessments	-	-	-	-	-	13,126	-	13,126	13,126	14,866		
Community support	2,159	-	-	-	2,159	-	1,931	1,931	4,090	7,123		
Recruitment	-	-	1,874	-	1,874	63,860	3,096	66,956	68,830	20,526		
Depreciation	933,210	21,703	21,703	21,703	998,319	54,256	32,554	86,810	1,085,129	1,042,346		
Total expenses	\$ 8,568,380	824,231	1,305,300	909,362	11,607,273	1,114,154	1,975,151	3,089,305	14,696,578	12,398,711		

See accompanying notes to financial statements.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Statement of Cash Flows

Year Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u> <u>Restated</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,984,389	(376,943)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,085,129	1,042,346
(Gains) loss on investments	(2,102,028)	1,231,050
(Gains) loss on beneficial interest in trusts	(552,923)	269,578
Loss on disposition of property and equipment	114,094	24,028
Cash provided by (used for) changes in:		
Contributions receivable	125,565	(438,368)
Other assets	266,383	(182,211)
Accounts payable and accrued expenses	26,070	209,667
Annuity payment liability	(226,954)	(107,421)
Net cash provided by operating activities	<u>3,719,725</u>	<u>1,671,726</u>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	48,294	64,312
Acquisition of land, buildings and equipment	(2,606,983)	(2,867,555)
(Purchase) sale of investments	(738,845)	994,271
Net cash used in investing activities	<u>(3,297,534)</u>	<u>(1,808,972)</u>
Net increase (decrease) in cash	422,191	(137,246)
Cash at beginning of year	<u>2,822,255</u>	<u>2,959,501</u>
Cash at end of year	<u>\$ 3,244,446</u>	<u>2,822,255</u>

See accompanying notes to financial statements.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

December 31, 2012

(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, 2012. Contributions receivable are stated at the amounts management expects to collect from outstanding balances. As of December 31, 2012, 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, 2012. 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 5 - 40 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, 2012, the Home's tax years that remain subject to examination are 2009 – 2011.

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 12, 2013, 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, 2012.

Level 1 Investments

Money market funds	\$ 1,293,165
Certificates of deposit	1,004,188
Equity securities	15,998,879
Government bonds	1,887,802
Mortgage-backed securities	5,194,407
Mutual funds	5,183,767
	<hr/>
	30,562,208

Level 3 Investments – alternative investments	<hr/>
	647,659
Total investments	<hr/>
	\$ 31,209,867

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(2) Investments - Continued

The following is a reconciliation of the Home's Level 3 instruments for the year ending December 31, 2012:

Fair value, beginning of year	\$ 837,905
Net realized and unrealized gains on investments	87,568
Purchases of investments	-
Proceeds from sale of investments	<u>(277,814)</u>
	<u>\$ 647,659</u>

The total of unrealized gains (losses) relating to Level 3 investments still held at December 31, 2012 was \$72,352.

Investment advisory fees expense totaling \$232,639 for the year ended December 31, 2012 are included in net realized and unrealized losses on investments.

(3) Land, Buildings and Equipment

At December 31, 2012, land, buildings and equipment consist of the following:

Land	\$ 3,994,987
Land improvements	2,668,681
Buildings and improvements	19,477,553
Furniture, fixtures and equipment	7,062,790
Vehicles	1,965,419
Construction in progress	<u>1,228,175</u>
	36,397,605
Less accumulated depreciation	<u>(20,734,089)</u>
	<u>\$ 15,663,516</u>

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(4) 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 being funded at ten percent of eligible employees' 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, 2012 was approximately \$475,830.

(5) Annuity Payment Liability

Contributions received by the Home under irrevocable split-interest agreements are recorded at their fair value when received. An annuity payment liability for charitable gift annuity contracts has been established equal to the present value of expected future payments to each annuitant as determined from contract payment schedules using current life expectancies. Contribution revenue is recognized for the difference between the fair value of the assets received and the liability incurred. Total net assets associated with split-interest agreements included within the annuity fund amount to approximately \$276,602 at December 31, 2012.

(6) Restricted Assets

Restricted assets of the Home consist of the following funds at December 31, 2012:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Designated Fund	\$ 7,301,711	-
Education Scholarship Fund	640,835	-
Annuity Fund	-	(1,167)
General Endowment Fund	-	14,962,876
Education Endowment Fund	-	1,840,797
	<u>\$ 7,942,546</u>	<u>16,802,506</u>

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(7) **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

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.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(7) Endowments - Continued

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, 2012</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds:			
Internally controlled	\$ 901,191	15,630,586	16,531,777
Externally controlled, Conference	-	1,895,021	1,895,021
Externally controlled, beneficial interest	-	3,427,612	3,427,612
	<u>\$ 901,191</u>	<u>20,953,219</u>	<u>21,854,410</u>

Changes in endowment net assets:

<u>December 31, 2012</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowments, beginning of year	\$ 723,533	19,632,156	20,355,689
Investment return:			
Donations	127,468	-	127,468
Net appreciation (realized and unrealized)	50,190	1,321,063	1,371,253
Endowments, end of year	<u>\$ 901,191</u>	<u>20,953,219</u>	<u>21,854,410</u>

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to Financial Statements

(8) Restatement

During the year ended December 31, 2012, management became aware of several trusts that have existed for many years for the Home's benefit that were not included in the Home's financial statement.

Generally accepted accounting principles require beneficial interests of trusts to be recorded as assets and contributions in the year contributed and the related interest and dividend income and unrealized gains and or losses each year. The Home did not record the asset, contribution or the unrealized income or loss in years prior to 2012.

The statement of financial position at December 31, 2011 has been restated to include the fair market value of the beneficial interests of trusts which resulted in an increase in total assets of \$1,224,035. For the year ended December 31, 2011, the change in net assets decreased \$117,588 to \$(376,943) as a result of recording unrealized gain (loss) on investments for that year. Temporarily restricted and permanently restricted net assets at January 1, 2011 were increased by \$920,541 and \$303,494, respectively, for activity prior to that date.

Other Financial Information

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

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Schedule of Governmental Financial Assistance

Year Ended December 31, 2012

<u>Federal Assistance</u>	<u>Identifying Number</u>	<u>Expenditure (in thousands)</u>
U.S. Department of Health and Human Services		
Passed through Florida Department of Children and Families (Residential Group Care Foster Care and Child Welfare Contracts)	93.658 93.558 93.667 93.556 93.958 93.659 93.645	\$ 815 59 464 2 22 48 15
Total USDHHS		<u>1,425</u>
U.S. Department of Agriculture		
Passed through Florida Department of Education (National School Lunch Program):		
Breakfast	10.553	53
Lunch	10.555	42
Passed through - State Department of Agriculture (Non-cash Assistance, Commodities)	10.555	<u>5</u>
Total USDA		<u>100</u>
Total Expenditures of Federal Awards		<u>\$ 1,525</u>
 <u>State Assistance</u>		
Florida Department of Children and Families Residential Group Care Program Services	60.094	\$ 1,159
Florida Department of Health Child Care Food Program Grant		<u>43</u>
Total Expenditures of State Financial Assistance		<u>\$ 1,202</u>

See accompanying notes to financial statements.

FLORIDA UNITED METHODIST CHILDREN'S HOME, INC.

Notes to the Schedule of Governmental Financial Assistance

Year ended December 31, 2012

(1) **Basis of Presentation**

The accompanying Schedule of Governmental Financial Assistance presents the activity of all federal, state and local financial assistance and federal, state and local cost reimbursement contracts of Florida United Methodist Children's Home, Inc. Florida United Methodist Children's Home, Inc. receives federal and state awards indirectly through pass-through entities.

Federal program, state and local project expenditures included in the accompanying schedule are presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

(2) **Major Programs**

Major programs are identified in the Summary of Audit Results section of the Schedule of Findings and Questioned Costs.

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**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, 2012, 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 12, 2013.

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.

Schater, Tschagg, Whittemut, Mitchell & Shuilen, LLP

Altamonte Springs, Florida
March 12, 2013

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**Report on Compliance for Each Major Federal Program and State Project;
Report on Internal Control Over Compliance, and Report on the
Schedule of Governmental Financial Assistance Required by
OMB Circular A-133**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of Florida United Methodist Children's Home, Inc., with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 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, 2012. Florida United Methodist Children's Home, Inc.'s major federal program 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 the requirements of laws, regulations, contracts, and grants 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 of America; OMB Circular A-133, *Audits of States*,

Local Governments, and Non-Profit Organizations and Section 215.97 of the Florida Statutes of the Florida Single Audit Act. Those standards, OMB Circular A-133 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

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 director and material effect on each of its major federal programs and state projects for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The 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 a major federal program and state project to determine our 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 OMB Circular A-133, 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 an 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 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Governmental Financial Assistance Required by OMB Circular A-133

We have audited the financial statements of Florida United Methodist Children's Home, Inc. as of and for the year ended December 31, 2012, and have issued our report thereon dated March 12, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of Governmental Financial Assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and 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 schedule of Governmental Financial Assistance is fairly stated in all material respects in relation to the financial statements as a whole.

Schaefer, Tschoy, Whitcomb, Mitchell & Shuilen, LLP

March 12, 2013
Altamonte Springs, Florida

Florida United Methodist Children's Home, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

A. Summary of the Audit Results

1. The Auditors' report expresses an unqualified opinion on the financial statements of Florida United Methodist Children's Home, Inc.
2. No significant deficiencies 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 Auditors' Report on Compliance with Requirements Applicable to Each Federal Major Program and Major State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133 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 for Florida United Methodist Children's Home, Inc.
7. The programs tested as a major federal program and as the major state project was 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 \$300,000.
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, 2012**

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