

PRESBYTERIAN CHILDREN'S
HOMES AND SERVICES
(a non-profit organization)
FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2020 and 2019



Presbyterian Children's
Homes and ServicesSM

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

**FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

DECEMBER 31, 2020 AND 2019

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Presbyterian Children's Homes and Services
Austin, Texas

We have audited the accompanying financial statements of Presbyterian Children's Homes and Services (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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 of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

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 Presbyterian Children's Homes and Services as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas

June 29, 2021

FINANCIAL STATEMENTS

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,802,381	\$ 4,238,007	\$ 7,040,388
Short-term investments	27,315	7,500	34,815
Accounts receivable, net of allowance	796,895	-	796,895
Related party receivable	233,432	-	233,432
Interest receivable	43,176	-	43,176
Contributions receivable, net of allowance and discount	230,953	4,259,974	4,490,927
Estates receivable	143,747	41,019	184,766
Prepaid assets	161,512	-	161,512
Notes receivable, net of allowance	-	-	-
Total current assets	<u>4,439,411</u>	<u>8,546,500</u>	<u>12,985,911</u>
Long-term investments	69,426,146	82,577,705	152,003,851
Property and equipment, net of accumulated depreciation	<u>15,850,992</u>	<u>-</u>	<u>15,850,992</u>
Total assets	<u>\$ 89,716,549</u>	<u>\$ 91,124,205</u>	<u>\$ 180,840,754</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 693,600	\$ -	\$ 693,600
Accrued payroll and compensated absences	1,353,502	-	1,353,502
Loans payable	3,483,800	-	3,483,800
Other accrued expenses	2,708	-	2,708
Current portion of long-term debt	1,353,897	-	1,353,897
Other liabilities	66,838	-	66,838
Total current liabilities	<u>6,954,345</u>	<u>-</u>	<u>6,954,345</u>
Non-current portion of long-term debt	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>6,954,345</u>	<u>-</u>	<u>6,954,345</u>
Net assets:			
Without donor restrictions	82,762,204	-	82,762,204
With donor restrictions	<u>-</u>	<u>91,124,205</u>	<u>91,124,205</u>
Total net assets	<u>82,762,204</u>	<u>91,124,205</u>	<u>173,886,409</u>
Total liabilities and net assets	<u>\$ 89,716,549</u>	<u>\$ 91,124,205</u>	<u>\$ 180,840,754</u>

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 937,962	\$ 5,426,038	\$ 6,364,000
27,019	-	27,019
709,423	-	709,423
322,908	-	322,908
292,782	-	292,782
154,745	4,505,040	4,659,785
484,793	41,019	525,812
685,171	-	685,171
5,894	4,823	10,717
<u>3,620,697</u>	<u>9,976,920</u>	<u>13,597,617</u>
65,440,822	76,096,315	141,537,137
12,662,861	-	12,662,861
<u>\$ 81,724,380</u>	<u>\$ 86,073,235</u>	<u>\$ 167,797,615</u>
\$ 524,689	\$ -	\$ 524,689
1,110,898	-	1,110,898
-	-	-
3,277	-	3,277
103,271	-	103,271
31,225	-	31,225
<u>1,773,360</u>	<u>-</u>	<u>1,773,360</u>
<u>1,353,336</u>	<u>-</u>	<u>1,353,336</u>
<u>3,126,696</u>	<u>-</u>	<u>3,126,696</u>
78,597,684	-	78,597,684
-	86,073,235	86,073,235
<u>78,597,684</u>	<u>86,073,235</u>	<u>164,670,919</u>
<u>\$ 81,724,380</u>	<u>\$ 86,073,235</u>	<u>\$ 167,797,615</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
Revenue and support:			
Contributions and bequests	\$ 4,621,631	\$ 1,087,735	\$ 5,709,366
Fees for service	8,678,137	-	8,678,137
Other income	619,350	-	619,350
Gain (loss) on sale of assets	(858)	-	(858)
Total revenue and support before releases	<u>13,918,260</u>	<u>1,087,735</u>	<u>15,005,995</u>
Net assets released from restrictions	3,108,996	(3,108,996)	-
Total revenue and support	<u>17,027,256</u>	<u>(2,021,261)</u>	<u>15,005,995</u>
Expenses:			
Residential services	2,285,377	-	2,285,377
Single parent and transitional living programs	1,565,310	-	1,565,310
Foster care & adoption services	9,026,265	-	9,026,265
Community services	5,817,341	-	5,817,341
Advanced & student education	339,408	-	339,408
Program services	<u>19,033,701</u>	<u>-</u>	<u>19,033,701</u>
Fundraising	2,211,493	-	2,211,493
Management & general	2,622,560	-	2,622,560
Support services	<u>4,834,053</u>	<u>-</u>	<u>4,834,053</u>
Total expenses	<u>23,867,754</u>	<u>-</u>	<u>23,867,754</u>
Change in nets assets from operating activities	<u>(6,840,498)</u>	<u>(2,021,261)</u>	<u>(8,861,759)</u>
NONOPERATING ACTIVITIES			
Contributions to endowments	-	195,345	195,345
Investment income, net of investment expenses	3,309,968	190,795	3,500,763
Change in fair value of split interest and annuities	-	184,736	184,736
Realized gains on long-term investments	2,054,834	250,952	2,305,786
Unrealized gains (losses) on long-term investments	5,640,216	6,250,403	11,890,619
Change in nets assets from nonoperating activities	<u>11,005,018</u>	<u>7,072,231</u>	<u>18,077,249</u>
CHANGE IN NET ASSETS	4,164,520	5,050,970	9,215,490
NET ASSETS, BEGINNING OF YEAR	<u>78,597,684</u>	<u>86,073,235</u>	<u>164,670,919</u>
NET ASSETS, END OF YEAR	<u>\$ 82,762,204</u>	<u>\$ 91,124,205</u>	<u>\$ 173,886,409</u>

The accompanying notes are an integral part of this statement.

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 4,573,189	\$ 864,271	\$ 5,437,460
9,640,734	-	9,640,734
718,034	-	718,034
154,820	-	154,820
<u>15,086,777</u>	<u>864,271</u>	<u>15,951,048</u>
696,065	(696,065)	-
<u>15,782,842</u>	<u>168,206</u>	<u>15,951,048</u>
5,046,853	-	5,046,853
1,386,821	-	1,386,821
8,143,571	-	8,143,571
4,954,801	-	4,954,801
394,354	-	394,354
<u>19,926,400</u>	<u>-</u>	<u>19,926,400</u>
2,176,421	-	2,176,421
2,919,358	-	2,919,358
<u>5,095,779</u>	<u>-</u>	<u>5,095,779</u>
25,022,179	-	25,022,179
<u>(9,239,337)</u>	<u>168,206</u>	<u>(9,071,131)</u>
-	196,077	196,077
2,967,791	131,592	3,099,383
(70,985)	2,697,501	2,626,516
1,604,561	171,336	1,775,897
9,742,750	7,954,391	17,697,141
<u>14,244,117</u>	<u>11,150,897</u>	<u>25,395,014</u>
5,004,780	11,319,103	16,323,883
<u>73,592,904</u>	<u>74,754,132</u>	<u>148,347,036</u>
<u>\$ 78,597,684</u>	<u>\$ 86,073,235</u>	<u>\$ 164,670,919</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
(with comparative totals for the year ended December 31, 2019)

Classification	2020				
	Residential Services	Single Parent & Transitional Living Programs	Foster Care & Adoption Services	Community Services	Advanced & Student Education
Salaries and wages	\$ 1,374,382	\$ 711,119	\$ 4,522,663	\$ 3,900,143	\$ 209,512
Employee benefits and taxes	342,521	192,438	1,315,566	963,845	40,723
	<u>1,716,903</u>	<u>903,557</u>	<u>5,838,229</u>	<u>4,863,988</u>	<u>250,235</u>
Bad debt expense	-	-	-	-	-
Client care services	111,287	84,046	1,866,701	214,127	56,426
Contracted services	15,095	8,339	69,008	30,345	1,562
Depreciation	54,817	136,886	164,530	40,121	2,131
Information technology	16,053	25,936	41,624	27,377	970
Insurance	60,701	54,595	168,088	132,138	9,246
Interest expense	882	462	14,784	32,866	106
Occupancy	118,581	158,651	423,412	184,221	4,829
Office expenses	27,287	32,435	39,970	43,766	3,272
Other expenses	3,880	1,516	8,544	4,025	104
Public relations and advertising	2,408	1,214	16,355	35,598	269
Recruiting and other employment	16,446	11,694	70,121	29,431	1,556
Repair and maintenance	49,426	108,171	89,803	62,597	2,541
Training	7,129	2,220	24,161	22,596	864
Transportation	50,241	31,361	101,205	41,702	4,471
Travel	34,241	4,227	89,730	52,443	826
Total	<u>\$ 2,285,377</u>	<u>\$ 1,565,310</u>	<u>\$ 9,026,265</u>	<u>\$ 5,817,341</u>	<u>\$ 339,408</u>

2020					2019
Total Program Services	Fundraising	Management & General	Total Support Services	Total Expenses	Total Expenses
\$ 10,717,819	\$ 1,344,627	\$ 1,530,321	\$ 2,874,948	\$ 13,592,767	\$ 13,626,700
2,855,093	285,110	371,961	657,071	3,512,164	3,845,625
13,572,912	1,629,737	1,902,282	3,532,019	17,104,931	17,472,325
-	-	192,046	192,046	192,046	172,441
2,332,587	-	-	-	2,332,587	2,316,034
124,349	21,093	102,851	123,944	248,293	290,576
398,485	50,092	86,798	136,890	535,375	611,246
111,960	45,715	27,673	73,388	185,348	209,796
424,768	47,121	130,812	177,933	602,701	548,626
49,100	4,302	12,207	16,509	65,609	53,483
889,694	29,986	52,023	82,009	971,703	1,073,639
146,730	86,358	35,295	121,653	268,383	338,577
18,069	2,572	18,517	21,089	39,158	95,124
55,844	237,884	734	238,618	294,462	302,090
129,248	5,907	6,290	12,197	141,445	82,335
312,538	13,764	30,246	44,010	356,548	371,709
56,970	1,974	1,542	3,516	60,486	74,062
228,980	14,808	13,271	28,079	257,059	350,604
181,467	20,180	9,973	30,153	211,620	659,512
<u>\$ 19,033,701</u>	<u>\$ 2,211,493</u>	<u>\$ 2,622,560</u>	<u>\$ 4,834,053</u>	<u>\$ 23,867,754</u>	<u>\$ 25,022,179</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Classification	Residential Services	Single Parent & Transitional Living Programs	Foster Care & Adoption Services	Community Services	Advanced & Student Education
Salaries and wages	\$ 2,792,817	\$ 604,646	\$ 3,949,811	\$ 3,218,801	\$ 255,403
Employee benefits and taxes	859,720	189,126	1,184,120	833,676	61,886
	<u>3,652,537</u>	<u>793,772</u>	<u>5,133,931</u>	<u>4,052,477</u>	<u>317,289</u>
Bad debt expense	-	-	-	-	-
Client care services	359,838	79,892	1,673,833	169,866	32,605
Contracted services	26,561	5,545	113,468	29,992	2,715
Depreciation	112,703	115,283	85,381	17,988	2,247
Information technology	28,071	20,541	43,750	28,126	4,442
Insurance	144,218	46,902	119,335	97,234	6,328
Interest expense	958	483	11,813	25,326	119
Occupancy	304,698	146,136	367,429	139,864	6,112
Office expenses	65,326	25,895	53,992	57,165	4,482
Other expenses	9,328	5,318	29,332	16,008	429
Public relations and advertising	16,185	3,552	27,306	15,843	956
Recruiting and other employment	15,681	3,883	33,758	9,992	370
Repair and maintenance	95,619	76,235	72,804	78,435	2,340
Training	15,438	3,043	29,884	20,231	1,817
Transportation	156,662	42,585	83,807	31,259	5,796
Travel	43,030	17,756	263,748	164,995	6,307
Total	<u>\$ 5,046,853</u>	<u>\$ 1,386,821</u>	<u>\$ 8,143,571</u>	<u>\$ 4,954,801</u>	<u>\$ 394,354</u>

Total Program Services	Fundraising	Management & General	Total Support Services	Total Expenses
\$ 10,821,478	\$ 1,233,527	\$ 1,571,695	\$ 2,805,222	\$ 13,626,700
3,128,528	297,919	419,178	717,097	3,845,625
<u>13,950,006</u>	<u>1,531,446</u>	<u>1,990,873</u>	<u>3,522,319</u>	<u>17,472,325</u>
-	-	172,441	172,441	172,441
2,316,034	-	-	-	2,316,034
178,281	17,423	94,872	112,295	290,576
333,602	51,919	225,725	277,644	611,246
124,930	52,130	32,736	84,866	209,796
414,017	36,118	98,491	134,609	548,626
38,699	3,122	11,662	14,784	53,483
964,239	36,108	73,292	109,400	1,073,639
206,860	85,467	46,250	131,717	338,577
60,415	8,071	26,638	34,709	95,124
63,842	237,954	294	238,248	302,090
63,684	4,868	13,783	18,651	82,335
325,433	17,236	29,040	46,276	371,709
70,413	2,360	1,289	3,649	74,062
320,109	16,070	14,425	30,495	350,604
495,836	76,129	87,547	163,676	659,512
<u>\$ 19,926,400</u>	<u>\$ 2,176,421</u>	<u>\$ 2,919,358</u>	<u>\$ 5,095,779</u>	<u>\$ 25,022,179</u>

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PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING ACTIVITIES		
Change in net assets	\$ 9,215,490	\$ 16,323,883
Adjustments to reconcile changes in net assets to net cash used by operating activities		
Bad debts	192,046	172,441
Depreciation	535,375	611,246
(Gain) loss on sale of assets	858	(154,820)
Contributions of investments	(15,811)	-
Realized gains on long-term investments	(2,305,786)	(1,775,897)
Unrealized (gains) losses on long-term investments	(11,890,619)	(17,697,141)
Contributions restricted for long-term investments	(231,868)	(4,746,379)
Change in:		
Accounts receivable	(279,518)	787,334
Related party receivable	89,476	(104,624)
Interest receivable	249,606	(270,474)
Contributions receivable	168,858	1,935,394
Estates receivable	341,046	(301,293)
Prepaid assets	523,659	(394,619)
Notes receivable	10,717	(166)
Accounts payable	168,911	(72,593)
Accrued payroll and compensated absences	242,604	106,726
Other accrued expenses	(569)	1,136
Other liabilities	35,613	8,810
Annuities payable	-	(140,924)
Net cash used by operating activities	(2,949,912)	(5,711,960)
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,731,896)	(1,116,670)
Proceeds from sale of property and equipment	7,533	2,322,273
Purchase of investments	(1,842,383)	(5,586,887)
Proceeds from sale of investments	5,580,087	4,746,630
Net cash provided by investing activities	13,341	365,346
FINANCING ACTIVITIES		
Borrowings on loans payable	3,483,800	-
Repayment of long term debt	(102,709)	(98,831)
Cash received from contributions, bequests, etc.	231,868	4,746,379
Net cash provided by financing activities	3,612,959	4,647,548
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	676,388	(699,066)
CASH AND CASH EQUIVALENTS, Beginning	6,364,000	7,063,066
CASH AND CASH EQUIVALENTS, Ending	\$ 7,040,388	\$ 6,364,000
SUPPLEMENTAL DISCLOSURE:		
Interest paid	\$ 66,178	\$ 70,552

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PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

1. ORGANIZATION AND PURPOSE

On January 1, 2018, Presbyterian Children's Homes and Services, a Texas non-profit corporation established in 1903, (PCHAS-TX) and Presbyterian Children's Homes and Services of Missouri, a Missouri non-profit corporation established in 1914 (PCHAS-MO) merged after five years of affiliation. The resulting non-profit corporation, known as Presbyterian Children's Homes and Services (PCHAS), provides Christ-centered care and support to children and families in need in Texas, Louisiana and Missouri.

PCHAS (the Organization) provides residential group foster homes, community foster homes, and adoption services. In addition, single parent family programs work to bring economic and emotional stability to children and their families, while transitional living programs assist young adults towards self-sufficiency by providing educational, economic and emotional support. In all three states, community service, case management and mentoring programs provide a network that brings together churches, schools, and other local resources to meet the varying needs of children and their families. The Organization also provides educational programs to help meet the needs of children in pursuit of college and vocational goals.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of PCHAS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The following is a summary of the significant policies.

Basis of Presentation

The financial statements of PCHAS were prepared using the accrual basis of accounting and as such reflect all significant receivables, payables and other liabilities. The financial statements include statements of financial position, statements of activities, statements of functional expenses, statements of cash flows, and related notes. The Financial Accounting Standards Board (FASB) is the accepted standard setting body for non-profit organizations.

The Organization has adopted FASB Codification Section 958-605 *Not-for-Profit Entities Revenue Recognition* and FASB Codification Section 958-205 *Not-for-Profit Entities Presentation of Financial Statements*, which became effective January 1, 2018.

FASB Codification Section 958-605 requires that unconditional promises to give (pledges) be recorded as receivables and revenue and requires that the organization distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. FASB Codification Section 958-205 requires that the statements be organized based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions - Net assets that are not subject to donor imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time. Those designations do not carry the same limitations as net assets with donor restrictions and are included in this category.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

PCHAS maintains its cash in several financial institutions. These accounts at times may exceed federally insured limits. As of December 31, 2020 and 2019, cash balances in financial institutions exceeded Federal Deposit Insurance Corporation (FDIC) coverage by \$5,278,653 and \$5,514,975, respectively. In addition, the Organization has money market funds, which are not federally insured, but are subject to Securities Investor Protection Coverage (SIPC) as of December 31, 2020.

PCHAS invests cash in excess of daily requirements in an overnight investment account, for the general operating account.

Investments

Investments in marketable securities are carried at market value based on the closing prices on the stock exchange as of the last day of the period. Realized and unrealized gains or losses are presented in accordance with any donor restrictions. Investment return is presented net of investment fees. PCHAS carries its investments in real estate at fair market value.

Investments include perpetual trusts in which PCHAS has an irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets which are held in trust by a third party. The interests in perpetual trusts are valued at the latest available market value. Changes in unrealized and realized gains (losses) on interests in perpetual trusts are recorded as changes in net assets with donor restrictions.

Investment Pools

PCHAS pools donor-restricted and board-designated endowments into pooled investment accounts. Realized and unrealized gains from the pooled investment accounts are allocated to the individual donor accounts based on the daily average of the market value of each endowment to the market value of the pooled investment accounts.

The fair value of assets in an individual donor restricted endowment are all above the endowments historic cost.

Accounts Receivable

Accounts receivable consists primarily of program services fees. An allowance for uncollectible accounts is determined using the aging method. All accounts over 90 days are reviewed to determine an allowance. Management provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance based on its assessment of the current status of individual accounts.

Contributions and Estates Receivable

Unconditional contributions are recognized when pledged and recorded as assets without donor restrictions or assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized only when the condition on which they depend is substantially met making the promise unconditional. PCHAS is the beneficiary of several split interest agreements that include various trusts and charitable gift annuities administered by third parties. The receivable for the split interest agreements is recorded at the present value of the estimated future benefits to be received when the trust assets are distributed.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Estates Receivable (Continued)

Estates are recognized in the period when notification is received and the value is determinable. The receivable for the estates is recorded at the estimated fair market value of the Organization's interest in the estate. Pledge contributions are recorded net of discount and allowance. Discounts and allowance are amortized over the term of the pledge contributions using the aging method.

Property and Equipment

PCHAS has adopted a capitalization threshold of \$2,000 and useful lives of five years or more. Therefore, purchases of property and equipment meeting these conditions are stated at cost. Depreciation on property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets, generally 5 to 40 years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

Donated property and equipment are valued at their estimated fair value at the time of donation and are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor imposed stipulations, PCHAS reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Long-lived assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset is not recoverable, an impairment charge is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including quoted market values and third-party independent appraisals, as deemed necessary.

Designation of Unrestricted Net Assets

It is the policy of the Board of Trustees to review its plans for meeting operational needs and its plans for property improvements and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such needs.

Donated Materials, Supplies and Facility Usage

Donated items and free use of facilities are valued at the estimated fair value at the date of donation. As donated items are used by our programs, a corresponding expense is recorded.

Donated Services

Donated services are recognized as contributions if the services create or enhance non-financial assets or if the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by PCHAS. In addition, volunteers provide assistance with specific programs, fundraising, and work on many committees that is not recognized as revenue since the recognition criteria were not met.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions, Fees, Investment Income, and Gains Restricted by Donors

PCHAS recognizes revenue from contributions when they are received and program fees as the services are provided while expenses are reported as incurred. PCHAS reports gifts, net investment income and gains on investments as restricted income if it is received with donor stipulation that restricts the gift's use or income to a specific purpose or has a time restriction. When a restriction is met, net assets are reclassified from net assets with donor restriction to net assets without donor restriction and reported in the statement of activities as net assets released from restriction. If these restrictions are met in the same period in which the gift or income is earned, the gift or income is recorded as without donor restriction. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Estimates

In the preparation of financial statements in conformity with GAAP, management uses estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported revenue and expenses. While management believes these estimates to be reasonable, actual results could differ from those estimates. Significant estimates in the financial statements relate to determination of the allowance for uncollectible receivables, student loans and pledges, depreciable lives of property and equipment, value of split interest receivables, valuation of annuities payable and fair value of investments.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, and other activities considered to be of a more unusual or nonrecurring nature.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and the statements of functional expense for the years ended December 31, 2020 and 2019. Accordingly, expenses directly related to a function are directly allocated to that function. Expenses that are attributable to or support more than one function are allocated on a reasonable basis such as total expense, square footage or number of budgeted positions, etc. For example, depreciation and utilities for shared facilities are allocated based on square footage, while insurance expense, depending on type, is allocated by budgeted salaries, net book value of assets and number of vehicles. Expenses for shared supplies, postage, and office equipment are allocated based on the number of positions budgeted by department.

Income Tax Status

PCHAS is exempt from federal income tax under Section 501(c)3 of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purpose (unless that income is otherwise excluded by the IRC). PCHAS has concluded that no tax benefits or liabilities are required to be recognized in accordance with GAAP. The last three tax years remain open to examination by taxing authorities.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status (Continued)

PCHAS has adopted FASB Accounting Standards Codification (ASC) 740-10, *Accounting for Uncertainty in Income Tax*. That standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting and interim periods, disclosure, and transition. Management believes there were none. In addition, PCHAS qualifies for the charitable contribution deduction under Section 170 of the IRC and has been classified as an organization other than a private foundation under Section 509(a)3.

Compensated Absences

Full-time employees in Texas and Louisiana earn annual compensated vacation time of 2 to 4 weeks based upon their position and length of service. The maximum accrual allowed is 1½ times the annual accrual. Upon termination, any unused vacation time is paid to the employee. Full-time employees accrue one day of sick leave per month. A maximum of sixty days may be accrued by each employee. Upon termination of employment, unused sick leave is forfeited unless the employee has 5 years or more of service. If the employee has 5 years or more of service, they are paid 25% of their sick leave accrual upon voluntary termination.

Full-time employees in Missouri accrue 18 to 36 days per year of Paid Time Off (PTO) based upon their position and length of service. The maximum balance allowed is 42 days. Upon termination, employees are paid 100% of their unused PTO balance.

The amount expected to be paid to employees for vacation leave, sick leave or PTO not yet taken as of December 31st of each year is recorded as a liability on the statements of financial position.

Reclassifications

Certain prior period amounts have been reclassified to conform to current period presentations. Such reclassifications had no effect on previously reported change in net assets, in total.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The purpose of this update was to provide a standard that increases consistency of revenue recognition for similar contracts, regardless of industry. It also provides for common revenue recognition standards for both GAAP and the International Accounting Standards Board (IASB). This update affects any organization recognizing revenue through various contracts with customers. The standard became effective for PCHAS on January 1, 2019.

The new standard is a single, contract-based approach in which revenue is recognized when an entity satisfies its obligation to its customers, which occurs when control over a good or service is transferred to a customer. Revenue and cost might change from current revenue recognition practices as it relates to the time and the amount recognized.

The adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* did not have an impact on the financial position, operations or net assets of PCHAS for the year ended December 31, 2020 or for the year ended December 31, 2019.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which applies to two types of leases: capital (or finance) leases and operating leases. While the requirements for a lessor under the new standard will remain similar to the current guidance, the requirements for a lessee are expanded. Previously, a lessee was only required to recognize capital leases on its balance sheet, however, the new standard now requires that a lessee recognize on the balance sheet assets and liabilities for leases with terms of more than 12 months, regardless of the type of lease. Leases with terms of less than 12 months are exempt from the new standard, if the organization makes the accounting policy election. Due to the recent business interruptions caused by the worldwide COVID-19 pandemic, the FASB issued ASU 2020-05 extending the effective date of this standard to fiscal years beginning after December 15, 2021.

The required recognition, measurement and presentation of cash flows by a lessee depend on the type of lease:

- (a) for capital or finance leases, lessees will recognize amortization of the right-of-use asset separately from interest on the lease liability.
- (b) for operating leases, lessees will recognize a single total lease expense calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.

For both types of leases, lessees will recognize a right-of-use asset and a lease liability.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This standard clarifies criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. It was effective for fiscal years beginning after December 15, 2019. The adoption of ASU 2018-08 by PCHAS as of January 1, 2020, using the modified prospective method, did not materially impact on the Organization's financial statements.

3. CASH AND INVESTMENTS

Long-term Investments

A portion of long-term investments is held in pooled funds at Texas Presbyterian Foundation (TPF) and is invested generally 58% in equities and 23% in fixed income investments, cash and cash equivalents and 19% in real estate and real estate and other less liquid strategies. A portion of long-term investments is invested in passive index funds.

PCHAS also holds some investments in real estate, mineral interests and securities, all of which were donated. Long-term investments at the end of the year consist of the following:

Investment Type	December 31, 2020		December 31, 2019	
	Cost Value	Market Basis	Cost Value	Market Basis
TPF pooled funds	\$ 37,460,263	\$ 68,872,100	\$ 38,812,452	\$ 64,336,452
Equity securities	15,423,559	17,457,340	15,369,024	16,526,923
Debt securities	2,000	20,000	20,000	20,000
Beneficial interest in trusts	65,572,876	65,572,876	60,363,930	60,363,930
Alternative strategies	1,317	1,317	5,127	5,127
Real estate	29,646	49,646	262,146	262,145
Mineral interests	23,572	23,572	15,560	15,560
Other miscellaneous investments	7,000	7,000	7,000	7,000
Total investments	<u>\$ 118,520,233</u>	<u>\$ 152,003,851</u>	<u>\$ 114,855,239</u>	<u>\$ 141,537,137</u>

PRESBYTERIAN CHILDREN’S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

3. CASH AND INVESTMENTS (Continued)

Fair Value Measurements

The following methods and assumptions were used in estimating the fair value disclosures for the financial instruments:

Investment securities - The fair values of investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices for identical or similar securities.

Receivables - The carrying amounts reported in the statements of financial position for all receivables approximate those receivables' fair values.

Payables - The carrying amounts reported in the statements of financial position for all payables approximate those payables' fair values.

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Interest receivable	\$ 43,176	\$ 43,176	\$ 292,782	\$ 292,782
Contributions receivable	4,490,927	4,490,927	4,659,785	4,659,785
Estates receivable	184,766	184,766	525,812	525,812
Notes receivable	-	-	10,717	10,717
Long term investments	152,003,851	152,003,851	141,537,137	141,537,137

FASB Codification Section 820, *Fair Value Measurements and Disclosure*, 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Codification Section 820 are described below:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that can be easily accessed.
- Level 2: Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

3. CASH AND INVESTMENTS (Continued)

Fair Value Measurements (Continued)

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019 from prior periods.

Common stocks, corporate bonds and U.S. government securities are valued at the closing price reported on the active market on which the individual securities are traded. Mutual funds are valued at the net asset value (NAV) of shares held at the end of the year.

Alternative investments which include pooled real estate funds, real estate, pooled alternative strategies funds, closely held hedge funds, closely held real estate investment trusts (REITs) and private equity are valued at other significant observable and unobservable inputs that include quoted prices of similar securities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while PCHAS 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 following table sets forth by level, within the fair value hierarchy, PCHAS assets at fair value as of December 31, 2020:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
TPF pooled funds - stocks, bonds, gov't sec, real estate, alternative strategies	\$ 68,872,100	\$ 56,948,079	\$ 11,924,021	\$ -
Equity securities	17,457,340	17,457,340	-	-
Debt securities	20,000	20,000	-	-
Beneficial interest in trusts	65,572,876	55,918,254	3,949,913	5,704,709
Alternative strategies	1,317	-	-	1,317
Real estate	49,646	-	49,646	-
Mineral interests	23,572	23,047	-	525
Other miscellaneous investments	7,000	-	-	7,000
	<u>\$ 152,003,851</u>	<u>\$ 130,366,720</u>	<u>\$ 15,923,580</u>	<u>\$ 5,713,551</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

3. CASH AND INVESTMENTS (Continued)

Fair Value Measurements (Continued)

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ending December 31, 2020:

Beginning balance 1/1/2020	\$ 4,970,786
Asset changes	667,288
Income	279
Realized loss	(166,516)
Unrealized gain	241,714
Ending balance 12/31/2020	<u>\$ 5,713,551</u>

The following table sets forth by level, within the fair value hierarchy, PCHAS assets at fair value as of December 31, 2019:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
TPF pooled funds - stocks, bonds,				
gov't sec, real estate, alternative strategies	\$ 64,336,452	\$ 52,514,498	\$ 11,821,954	\$ -
Equity securities	16,526,923	16,526,923	-	-
Debt securities	20,000	20,000	-	-
Beneficial interest in trusts	60,363,930	51,681,633	3,723,844	4,958,453
Alternative strategies	5,127	-	-	5,127
Real estate	262,145	-	262,145	-
Mineral interests	15,560	15,354	-	206
Other miscellaneous investments	7,000	-	-	7,000
	<u>\$ 141,537,137</u>	<u>\$ 120,758,408</u>	<u>\$ 15,807,943</u>	<u>\$ 4,970,786</u>

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ending December 31, 2019:

Beginning balance 1/1/2019	\$ 4,889,952
Asset changes	(261,199)
Income	1,400
Realized gain	125,007
Unrealized gain	215,626
Ending balance 12/31/2019	<u>\$ 4,970,786</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

4. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2020 and 2019, financial assets and liquidity resources available to the Organization for general operating expenses within one year of the balance sheet are as follows:

	2020	2019
Cash and cash equivalents	\$ 2,802,381	\$ 937,962
Short-term investments	34,815	27,019
Accounts receivable, net of allowance	796,895	709,423
Related party receivable	233,432	322,908
Interest receivable	43,176	292,782
Contributions receivable, expected within one year	445,031	310,539
Estates receivable, expected within one year	143,747	99,757
Assets expected from trustee funds, within one year	1,422,556	1,432,135
Board approved draw from endowment, within one year	4,978,775	4,904,473
Total financial assets available for current use	<u>\$ 10,900,808</u>	<u>\$ 9,036,998</u>

As discussed in Note 2, Summary of Significant Accounting Policies, it is the policy of the Board of Trustees to review its plans for meeting operational needs and its plans for property improvements and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such needs. PCHAS invests cash in excess of daily requirements in an overnight investment account, for the general operating account. In addition, PCHAS has Board designated endowment net assets of \$69,344,618 and \$65,150,997 in 2020 and 2019, respectively. Although the Organization does not intend to spend from its board designated funds beyond the amount approved annually for general operating needs, amounts from these funds could be made available with Board approval, if necessary.

5. ENDOWMENT FUNDS

The Organization's endowment consists of a number of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

5. ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law

The Board of Trustees of PCHAS has interpreted the state Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the purchasing power (real value) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, PCHAS classifies as permanently restricted net assets: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, (3) 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, and (4) the portion of investment return added to the permanent endowment to maintain its purchasing power. For purposes of determining that portion, each year PCHAS adjusts permanently restricted net assets by an amount determined to be reasonable for use in the operations but also provide for the change in the average Consumer Price Index (CPI). If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' real value, that excess is maintained as endowment assets in permanently restricted net assets until appropriated by the Board for expenditure.

Although UPMIFA does not preclude the Organization from spending below the original gift value of donor-restricted endowments, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has adopted a policy not to spend from underwater endowments unless directed otherwise by the donor.

At times the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. As of the date of these statements, no such deficiencies exist in the Organization's endowments.

In accordance with UPMIFA, PCHAS 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) The general economic conditions;
- 4) The possible effect of inflation or 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.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

5. ENDOWMENT FUNDS (Continued)

Endowment Net Asset Classification by Type of Fund as of December 31, 2020

	Without Donor Restriction	With Donor Restriction			Total
		Temporarily Restricted	Permanently Restricted	Total With Donor Restriction	
<u>Endowment Type</u>					
Donor restricted	\$ -	\$ 4,992,611	\$ 80,446,961	\$ 85,439,572	\$ 85,439,572
Board designated	69,344,618	-	-	-	69,344,618
Total investments	<u>\$ 69,344,618</u>	<u>\$ 4,992,611</u>	<u>\$ 80,446,961</u>	<u>\$ 85,439,572</u>	<u>\$ 154,784,190</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2020

	Without Donor Restriction	With Donor Restriction			Total
		Temporarily Restricted	Permanently Restricted	Total With Donor Restriction	
<u>Endowment Assets</u>					
Beginning balance	\$ 65,150,997	\$ 4,142,165	\$ 74,770,228	\$ 78,912,393	\$ 144,063,390
<u>Investment return</u>					
Investment return	471,868	80,415	-	80,415	552,283
Net appreciation (depreciation)					
realized & unrealized	7,699,029	1,208,882	5,486,159	6,695,041	14,394,070
Total invest return	<u>8,170,897</u>	<u>1,289,297</u>	<u>5,486,159</u>	<u>6,775,456</u>	<u>14,946,353</u>
Contributions	-	-	195,345	195,345	195,345
Appropriation of endowment					
assets for expenditure	79,327	-	(4,823)	(4,823)	74,504
Transfer to undesignated	(4,056,603)	(438,851)	52	(438,799)	(4,495,402)
Ending balance	<u>\$ 69,344,618</u>	<u>\$ 4,992,611</u>	<u>\$ 80,446,961</u>	<u>\$ 85,439,572</u>	<u>\$ 154,784,190</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

5. ENDOWMENT FUNDS (Continued)

Endowment Net Asset Classification by Type of Fund as of December 31, 2019

	Without Donor Restriction	With Donor Restriction			Total
		Temporarily Restricted	Permanently Restricted	Total With Donor Restriction	
<u>Endowment Type</u>					
Donor restricted	\$ -	\$ 4,142,165	\$ 74,770,228	\$ 78,912,393	\$ 78,912,393
Board designated	65,150,997	-	-	-	65,150,997
Total investments	<u>\$ 65,150,997</u>	<u>\$ 4,142,165</u>	<u>\$ 74,770,228</u>	<u>\$ 78,912,393</u>	<u>\$ 144,063,390</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2019

	Without Donor Restriction	With Donor Restriction			Total
		Temporarily Restricted	Permanently Restricted	Total With Donor Restriction	
<u>Endowment Assets</u>					
Beginning balance	\$ 57,152,892	\$ 3,051,134	\$ 65,740,832	\$ 68,791,966	\$ 125,944,858
<u>Investment return</u>					
Investment return	572,300	23,562	8,905	32,467	604,767
Net appreciation (depreciation)					
realized & unrealized	11,347,914	1,497,995	8,830,499	10,328,494	21,676,408
Total invest return	<u>11,920,214</u>	<u>1,521,557</u>	<u>8,839,404</u>	<u>10,360,961</u>	<u>22,281,175</u>
Contributions	-	-	196,077	196,077	196,077
Appropriation of endowment					
assets for expenditure	74,513	-	(6,085)	(6,085)	68,428
Transfer to undesignated	(3,996,622)	(430,526)	-	(430,526)	(4,427,148)
Ending balance	<u>\$ 65,150,997</u>	<u>\$ 4,142,165</u>	<u>\$ 74,770,228</u>	<u>\$ 78,912,393</u>	<u>\$ 144,063,390</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

5. ENDOWMENT FUNDS (Continued)

Return Objectives and Risk Parameters

PCHAS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to result in high yields while assuming a moderate level of investment risk. PCHAS expects its endowment funds, over time, to provide an average rate of return of approximately eight percent annually. Actual returns in any given year may vary from this amount.

6. RECEIVABLES

Accounts Receivable

Accounts receivable includes fees from public and private sources to assist in the cost of providing services to children.

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ 1,285,163	\$ 1,016,462
Allowance for uncollectible accounts	(488,268)	(307,039)
	<u>\$ 796,895</u>	<u>\$ 709,423</u>

Contributions

Contributions receivable consists of the following:

	<u>2020</u>	<u>2019</u>
Donations receivable without donor restrictions	\$ 110,942	\$ 96,409
Donations receivable with donor restrictions	7,938	12,259
Pledges without donor restrictions	159,486	104,726
Pledges with donor restrictions	730,216	921,881
Split interest gifts	3,549,249	3,606,366
Total receivables	<u>4,557,831</u>	<u>4,741,641</u>
Allowance for uncollectible pledges	(49,284)	(55,536)
Unamortized discount on pledges	(17,620)	(26,320)
Total	<u>\$ 4,490,927</u>	<u>\$ 4,659,785</u>

PRESBYTERIAN CHILDREN’S HOMES AND SERVICES

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6. RECEIVABLES (Continued)

Contributions (Continued)

In calculating the present value of the long-term pledges, PCHAS used the Internal Revenue Service (IRS) discount rate of the month for December. The rate applied to the pledges was based on the year in which the pledge was made. The rates are as follows:

IRS Discount Rate			
<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
2011	1.6%	2016	1.8%
2012	1.2%	2017	2.6%
2013	2.0%	2018	3.6%
2014	2.0%	2019	2.0%
2015	2.0%	2020	0.6%

Total contribution receivables expected to be received within one year total \$1,090,828; between one to five years \$2,633,358 and longer than 5 years are \$833,645.

PCHAS is the beneficiary in several split interest agreements. While PCHAS has been named as the remainder beneficiary, PCHAS is not the trustee nor does PCHAS exercise control over the assets of the trusts, except in a limited number of charitable remainder unitrusts. A receivable is recorded for the value provided by the third party trustee, which is the difference between the present value of expected future payments to the specified beneficiary and the market value of the assets. The value as of December 31, 2020 decreased by \$57,117 from the value as of December 31, 2019 largely due to the maturity of charitable remainder unitrusts.

Estates

PCHAS is the beneficiary in several estates that are pending distribution. Receivables from estates total \$184,766 as of December 31, 2020. Amounts expected to be received within one year are \$143,747 and between one and five years \$41,019.

Notes Receivable

Notes receivable consists of the following:

	2020	2019
Scholarship and student loans	\$ -	\$ 13,750
Scholarship loan allowance for doubtful accounts	-	(3,033)
	<u>\$ -</u>	<u>\$ 10,717</u>

PCHAS extends loans to students on an as needed basis to assist them with various expenses related to their education and daily needs.

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7. FIXED ASSETS

Property and equipment consist of the following at year-end:

	Balance 12/31/2019	Additions/ Transfers	Deletions/ Transfers	Balance 12/31/2020
Land	\$ 1,919,124	\$ -	\$ -	\$ 1,919,124
Buildings and improvements	17,506,467	430,501	(37,241)	17,899,727
Furniture and equipment	971,624	-	(13,658)	957,966
Vehicles	14,792	-	-	14,792
Capital work in progress	514,108	3,301,395	-	3,815,503
Total fixed assets	<u>20,926,115</u>	<u>3,731,896</u>	<u>(50,899)</u>	<u>24,607,112</u>
Less: accumulated depreciation	<u>(8,263,254)</u>	<u>(535,375)</u>	<u>42,509</u>	<u>(8,756,120)</u>
Net fixed assets	<u>\$ 12,662,861</u>	<u>\$ 3,196,521</u>	<u>\$ (8,390)</u>	<u>\$ 15,850,992</u>

Depreciation expense totaled \$535,375 in 2020 and \$611,246 in 2019.

8. LINES OF CREDIT

PCHAS holds a \$200,000 line of credit with a bank that was secured by property. Interest on this line of credit was payable monthly at prime rate plus 0.50% and subject to 4.50%. The principal and interest were due April 9, 2020. The balance of this line of credit was \$0 as of December 31, 2020 and 2019. This line of credit was renewed at the time it became due.

The prime rate at December 31, 2020 and 2019 was 3.25% and 4.75%, respectively. Interest paid on this line of credit was \$0 for the years ended December 31, 2020 and 2019, respectively.

9. LOANS PAYABLE

In April 2020, PCHAS applied for and was approved for an aggregate Paycheck Protection Program (PPP) loan of \$3,483,800 issued by the Small Business Administration (SBA). As a result of recently amended changes to the PPP program, at least 60% of the loan amount must be expended on payroll in the 24 week-period following the loan date and 40% of the loan must be expended for utilities, rent and mortgage interest payments. The Organization intends to use the entire loan amount for qualifying expenses and request loan forgiveness, but there is no guarantee that the loan will be forgiven. Any portion that is not forgiven will be repaid with a 1% interest rate over a two-year period with a loan maturity of April 17, 2022.

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10. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2020</u>	<u>2019</u>
\$2,000,000 term loan with bank; payable in monthly installments of \$13,965, including interest, payable at 4.5%; final payment due in January 15, 2021 - collateralized by real property	1,353,897	1,456,607
	<u>1,353,897</u>	<u>1,456,607</u>
Less current portion of long-term debt	-	103,271
	<u><u>\$ 1,353,897</u></u>	<u><u>\$ 1,353,336</u></u>

This term loan was renewed for 5 years in January of 2021. Interest paid on long-term debt for the years ended December 31, 2020 and 2019 was \$64,868 and \$68,747, respectively.

Future maturities of long-term debt are as follows:

	<u>Year Ending December 31,</u>
2021 - current portion	<u>1,353,897</u>
	<u><u>\$ 1,353,897</u></u>

11. ANNUITIES PAYABLE

PCHAS receives donations from donors in exchange for annuities that provide income to a named beneficiary (or beneficiaries) until their death. The difference between the amount of the donation and the present value of expected future payments to the beneficiary is recognized as revenue in the year of the donation. During 2019, the Organization transferred additional charitable gift annuities under management to the Texas Presbyterian Foundation. They will perform the responsibilities of payments and tax reporting and carry the liability for the annuity payable. Therefore, the total expected annual payments are \$0 at December 31, 2020, and December 31, 2019, respectively.

12. NET ASSET CLASSIFICATIONS

Without Donor Restriction

Net assets without donor restriction represent resources over which the Board of Trustees have discretionary authority.

With Donor Restriction

Net assets with donor restriction include both temporarily restricted and permanently restricted net assets.

Temporarily restricted net assets include gifts that were received and are restricted for a specific use or have a time restriction. When the restrictions are met, the temporarily restricted net assets are released from restrictions to net assets without donor restrictions and reported on the statements of activities.

Permanently restricted net assets include endowment funds which PCHAS must hold in perpetuity and can only spend the income. Trusts held by a third party in perpetuity for the benefit of PCHAS are also included in this net asset category. Gains on these investments are available for use as specified by the donor. Permanently restricted net assets are categorized by income restriction.

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12. NET ASSET CLASSIFICATIONS (Continued)

With Donor Restriction (Continued)

Net assets with donor restrictions consisted of the following as of December 31, 2020.

	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Net Assets With Donor Restriction
Permanent improvements	\$ 655,644	\$ 2,004,383	\$ 2,660,027
Advanced education	5,915,152	4,672,498	10,587,650
General education	1,292,799	5,275,543	6,568,342
Christian education	80,320	287,356	367,676
Special services	34,151	47,292	81,443
Time restricted	2,017,236	-	2,017,236
Other	681,942	19,600	701,542
Undesignated	-	68,140,289	68,140,289
	<u>\$ 10,677,244</u>	<u>\$ 80,446,961</u>	<u>\$ 91,124,205</u>

Net assets with donor restrictions consisted of the following as of December 31, 2019.

	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Net Assets With Donor Restriction
Permanent improvements	\$ 2,465,832	\$ 1,802,313	\$ 4,268,145
Advanced education	5,276,923	4,538,546	9,815,469
General education	939,757	5,006,189	5,945,946
Christian education	59,549	265,152	324,701
Special services	28,771	37,292	66,063
Time restricted	2,404,292	-	2,404,292
Other	127,883	17,131	145,014
Undesignated	-	63,103,605	63,103,605
	<u>\$ 11,303,007</u>	<u>\$ 74,770,228</u>	<u>\$ 86,073,235</u>

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NOTES TO FINANCIAL STATEMENTS

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12. NET ASSET CLASSIFICATIONS (Continued)

With Donor Restriction (Continued)

Net assets were released from donor restrictions in 2020 and 2019, by incurring expenses satisfying the following restricted purposes or by expiration of time restrictions:

	Released from Donor Restrictions	
	2020	2019
Permanent improvements	\$ 2,029,110	\$ 28,589
Advanced education	163,179	130,723
General education	181,796	167,447
Christian education	1,960	5,398
Special services	1,919	1,855
Time restricted	638,599	321,977
Other	92,433	40,076
	<u>\$ 3,108,996</u>	<u>\$ 696,065</u>

13. FEES FOR SERVICE

Program service fees consist of the following for the year ended:

	December 31,	
	2020	2019
State of Texas	\$ 3,733,857	\$ 3,508,669
State of Missouri	425,941	920,710
Missouri Alliance for Children & Families, LLC	2,960,373	2,938,462
US Department of Agriculture	-	4,000
St. Louis County Children's Fund	1,237,236	1,713,387
Other fees	320,730	555,506
	<u>\$ 8,678,137</u>	<u>\$ 9,640,734</u>

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14. EMPLOYEE DEFINED CONTRIBUTION PLAN

PCHAS has established a 403(b) defined contribution plan for its employees in order to provide funds for their retirement or for their beneficiaries in the event of their death.

All employees of PCHAS are eligible to receive employer contributions upon completion of one year of service or 1,000 hours of service in a twelve month period. Upon meeting eligibility requirements to receive employer contributions, PCHAS will contribute an amount equal to 3% of each employee's base salary as a non-matching contribution. PCHAS will make additional matching contributions based upon 200% of an employee's participation in the plan through a voluntary salary reduction up to a total match of 6%. PCHAS contributed \$923,924 and \$885,364 to the plan on behalf of employees during the year ended December 31, 2020 and 2019, respectively. No significant changes were made to the plan in 2020, other than the implementation of the changes set forth by the Coronavirus Aid, Relief and Economic Security Act (the CARES Act). The CARES Act allowed qualifying individuals temporary financial relief through distributions and loans from their retirement savings accounts. Relief efforts included the following for transactions occurring in calendar year 2020:

- Waiving of the required minimum distributions for certain defined contribution plans to avoid retirement-age individuals being required to withdraw from accounts that were subjected to recent severe fluctuations in the stock market.
- Removing the 10% early withdrawal penalty for any coronavirus-related distribution up to \$100,000 per participant.
- and increasing the limit on maximum loan amounts that can be taken from a participants retirement account.

These changes did not materially affect the 403(b) plan.

15. RELATED PARTY TRANSACTIONS

PCHAS is a limited member of the Missouri Alliance for Children and Families, L.L.C. (the Alliance) in which it has a 14.3% equity interest. The Alliance contracts with most of its members to provide a variety of services, as well as with non-member agencies and organizations across the state. The Alliance currently provides services to the Missouri Children's Division under two contracts. Both contracts are reviewed with the state and revised and renewed periodically. Under the initial contract, the Alliance provides case management services to children in the care and custody of the state. PCHAS contracts with the Alliance to provide certain services to these clients, including both residential and community-based care.

Under the second contract, the Alliance is the provider of record with the state, but acts primarily to provide administrative services to PCHAS and four other member agencies. These five agencies provide foster care case management services to clients, essentially as subcontractors with the Alliance. The contract provides annually for bonuses and/or penalties. PCHAS also provides other services for its clients and those of other private case management contractors across the state, as determined by the organization assigned to the case. These services include both residential and community-based services.

PCHAS leases office space to the Alliance on a monthly basis. Rental income received from the Alliance is included in other revenues in the amount of \$56,394 and \$54,144 for the years ended December 31, 2020 and 2019, respectively.

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15. RELATED PARTY TRANSACTIONS (Continued)

Distributions of capital from the Alliance are also included in other revenues. No distributions of capital were received in 2020, while \$150,000 was received in 2019.

Other payments received from the Alliance for residential services, case management services and permanency bonuses are included within fees for service as shown above.

16. OPERATING LEASES

PCHAS leases office space under operating leases that have initial or remaining non-cancelable lease terms in excess of one year. In addition, the Organization leases fleet vehicles under an agreement that does not require a minimum term. As of December 31, 2020 the minimum lease payments for those operating leases are as follows:

	Year Ending December 31,	
2021	\$	297,954
2022		58,942
2023		40,800
2024		21,300
Thereafter		32,400
	\$	<u>451,396</u>

Rent expense for these leases totaled \$503,024 in 2020 and \$492,125 in 2019.

17. SUBSEQUENT EVENTS

Management of PCHAS has evaluated subsequent events through June 29, 2021, the issuance date of this report.

The \$2,000,000 term loan described in Note 10 was renewed for 5 years when it became due on January 15, 2021.