

EPWORTH CHILDREN'S HOME

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2011

WITH

REPORT OF INDEPENDENT AUDITORS

EPWORTH CHILDREN'S HOME

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2011

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Epworth Children's Home
Columbia, South Carolina

We have audited the accompanying statement of financial position of Epworth Children's Home (the "Home") as of September 30, 2011 and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Home's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Home's 2010 financial statements and, in our report dated December 15, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Epworth Children's Home at September 30, 2011 and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DeLoach & Williamson, L.L.P.

December 1, 2011

EPWORTH CHILDREN'S HOME

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2011
 (with comparative amounts for September 30, 2010)

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 557,912	\$ 473,481
Accounts receivable	243,848	116,206
Accrued interest receivable	40,689	32,323
Bequests receivable	1,254,540	135,969
Investments	16,936,888	17,490,845
Prepaid expenses	7,433	11,351
Cash surrender value of life insurance	30,783	30,783
Funds held by others	242,882	254,848
Property and equipment, less accumulated depreciation	6,142,022	6,416,619
Total assets	<u>\$ 25,456,997</u>	<u>\$ 24,962,425</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 34,172	\$ 29,689
Accrued expenses	117,710	164,909
Annuities payable	64,069	66,189
Funds held for students	6,921	5,525
Total liabilities	<u>222,872</u>	<u>266,312</u>
Net assets:		
Unrestricted	19,957,778	19,491,903
Temporarily restricted	3,305,847	3,294,135
Permanently restricted	1,970,500	1,910,075
Total net assets	<u>25,234,125</u>	<u>24,696,113</u>
Total liabilities and net assets	<u>\$ 25,456,997</u>	<u>\$ 24,962,425</u>

See accompanying notes.

EPWORTH CHILDREN'S HOME

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2011

(with comparative total amounts for the year ended September 30, 2010)

	Year Ended September 30, 2011			Total	2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, Gains and Other Support					
Contributions - organizations and individuals	\$ 1,823,059	\$ 71,525	\$ 60,425	\$ 1,955,009	\$ 1,926,871
Legacies and bequests	1,682,435	-	-	1,682,435	125,955
Contributions - governmental	867,088	-	-	867,088	509,789
Investment income, net of fees	197,383	79,319	-	276,702	1,313,639
Early intervention program	30,409	-	-	30,409	28,115
Other	60,170	-	-	60,170	28,930
Satisfaction of program restrictions	139,132	(139,132)	-	-	-
Total revenues, gains, and other support	<u>4,799,676</u>	<u>11,712</u>	<u>60,425</u>	<u>4,871,813</u>	<u>3,933,299</u>
Expenses					
Program services	3,623,076	-	-	3,623,076	3,683,347
General and administrative	393,172	-	-	393,172	489,879
Fund raising	317,553	-	-	317,553	261,278
Total expenses	<u>4,333,801</u>	<u>-</u>	<u>-</u>	<u>4,333,801</u>	<u>4,434,504</u>
Changes in net assets	465,875	11,712	60,425	538,012	(501,205)
Net assets, beginning of year	<u>19,491,903</u>	<u>3,294,135</u>	<u>1,910,075</u>	<u>24,696,113</u>	<u>25,197,318</u>
Net assets, end of year	<u>\$ 19,957,778</u>	<u>\$ 3,305,847</u>	<u>\$ 1,970,500</u>	<u>\$ 25,234,125</u>	<u>\$ 24,696,113</u>

See accompanying notes.

EPWORTH CHILDREN'S HOME

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2011

(with comparative amounts for the year ended September 30, 2010)

	<u>Years Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Changes in net assets	\$ 538,012	\$ (501,205)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation	366,287	379,414
Donation of property and equipment	(13,112)	-
Change in actuarial value of annuity payable	4,579	4,572
Net (gain) loss on investments	1,615	(1,044,494)
Contributions of permanently restricted assets	(60,425)	(5,785)
Change in operating assets and liabilities		
Accounts receivable	(127,642)	19,060
Bequests receivable	(1,118,571)	121,281
Accrued interest receivable	(8,366)	1,322
Prepaid expenses	3,917	(4,273)
Accounts payable and accrued expenses	(42,717)	16,421
Funds held for students	1,396	5,525
Net cash used in operating activities	<u>(455,027)</u>	<u>(1,008,162)</u>
Cash flows from investing activities		
Purchase of property and equipment	(78,578)	(57,594)
Proceeds from sales and maturities of investments	12,923,504	14,021,766
Purchases of investments	(12,359,193)	(12,749,733)
Net cash provided by investing activities	<u>485,733</u>	<u>1,214,439</u>
Cash flows from financing activities		
Contributions of permanently restricted assets	60,425	5,785
Payments under annuity contracts	(6,700)	(6,700)
Net cash provided by (used in) financing activities	<u>53,725</u>	<u>(915)</u>
Net increase in cash and cash equivalents	84,431	205,362
Cash and cash equivalents, beginning of year	473,481	268,119
Cash and cash equivalents, end of year	<u>\$ 557,912</u>	<u>\$ 473,481</u>
Supplemental Schedule:		
Donated fixed assets	\$ 13,112	\$ -
Actuarial adjustments for annuity liabilities	\$ 2,121	\$ 2,128
Change in cash surrender value life insurance	\$ -	\$ 831

See accompanying notes.

EPWORTH CHILDREN'S HOME

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2011

(with comparative amounts for the year ended September 30, 2010)

	Year Ended September 30, 2011				2010 Total
	Program Services	General and Administrative	Fund Raising	Total	
Salaries and wages	\$ 1,716,371	\$ 191,889	\$ 121,034	\$ 2,029,294	\$ 2,162,043
Employee benefits	268,630	23,183	18,030	309,843	287,622
Payroll taxes	117,516	11,961	6,648	136,125	147,135
Housing allowance	9,000	5,000	5,000	19,000	19,000
Supplies	79,529	5,417	5,785	90,731	104,713
Clothing	48,165	-	-	48,165	42,891
Hair care	3,287	-	-	3,287	7,990
Tuition and education costs	32,725	-	-	32,725	49,778
Food purchased	192,891	-	-	192,891	194,419
Fuel, power, water, sewer	389,682	31,491	8,657	429,830	431,402
Insurance	103,274	7,310	5,163	115,747	114,686
Maintenance and repairs	82,204	3,244	2,088	87,536	92,016
Telephone	35,009	4,917	2,416	42,342	43,730
Postage	-	9,163	47,583	56,746	47,941
Printing	178	48	59,468	59,694	40,126
Travel	11,590	451	4,069	16,110	17,588
Dues and subscriptions	5,465	11,244	1,843	18,552	35,069
Resident activities	33,551	-	-	33,551	22,440
Legal and auditing	7,433	38,271	18,000	63,704	72,647
Employment costs	6,238	572	222	7,032	6,169
Temporary help	45,044	7,085	-	52,129	35,360
Unemployment taxes	20,176	-	-	20,176	10,136
Training and education	7,389	1,534	-	8,923	10,597
Auto expenses	56,654	1,146	1,146	58,946	32,672
Uniforms	3,234	-	155	3,389	2,948
Promotional items	-	-	-	-	772
Interest and bank charges	-	4,665	-	4,665	4,255
Meals and entertainment	9,821	299	282	10,402	6,012
Other expenses	4,296	1,719	9,964	15,979	12,933
Total expenses before depreciation	3,289,352	360,609	317,553	3,967,514	4,055,090
Depreciation	333,724	32,563	-	366,287	379,414
Total expenses	\$ 3,623,076	\$ 393,172	\$ 317,553	\$ 4,333,801	\$ 4,434,504

See accompanying notes.

EPWORTH CHILDREN'S HOME

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

1. Nature of Activities

Epworth Children's Home (the "Home") is a non-profit corporation organized January 20, 1896 under the laws of the State of South Carolina for the purpose of providing, in a Christian manner and to the extent of their capabilities, child care, counseling and related services to families and children of South Carolina.

2. Summary of Significant Accounting Policies

Financial reporting

The accompanying financial statements are based on the accrual method of accounting reflecting income earned regardless of when received and expenses incurred regardless of when paid. The Home adheres to the disclosure and display requirements of the Financial Accounting Standards Board (FASB) as set forth for not-for-profit organizations. In accordance with FASB guidance the Home's resources are classified into three net asset categories as follows:

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

Temporarily restricted net assets: Net assets subject to donor restrictions that may or will be met either by actions of the Home or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that must be maintained permanently by the Home. The donors of these assets permit the Home to use all or part of the income earned on related investments for donor-imposed restrictions, or unrestricted purposes in the operation of the Home.

Institutional Funds

During the fiscal year ended September 30, 2009, South Carolina enacted its version of the Uniform Prudent Management of Institutional Funds as the South Carolina Uniform Prudent Management of Institution Funds Act (the Act). In accordance with the Act, gifts restricted by the donor in perpetuity, for a specified time, or a specified purpose are preserved by the Home at the fair value of the original gifts as valued on the date of the gift, unless donor stipulations explicitly provide contrary terms. The Board has interpreted the "institutional endowment funds" requiring compliance with the Act to exclude annuity agreements, trust agreements for which it is not the trustee or custodian, funds used to account for real estate holdings and the related activity, expendable funds, and its operational funds.

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EPWORTH CHILDREN'S HOME

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

-CONTINUED-

2. Summary of Significant Accounting Policies (Continued)

The Home has established its accounting policies to report the gifts to "institutional endowment funds" as temporarily or permanently restricted net assets depending on the terms stipulated by the donor. Earnings from investment of these gifts are reported as unrestricted when stipulated by the donor or temporarily restricted until approval for disbursement through request from authorized departmental personnel or by the Board of Trustees. Approvals for disbursements include consideration as required by the Act of the duration and preservation of the fund, the donor stipulated purpose, economic conditions and outlook, investment performance, and other available resources of the Home.

The Home's Board of Trustees has enacted investment and spending policies for the Home's resources including its "institutional endowment funds" which seek to maintain and increase the purchasing power of the Home for support of its mission. The investment policies address levels of risk appropriate for the expected holding period and size of the Home's resources. The Home's objective combines the goal of preservation of capital and generation of total return with a moderate tolerance of risk over a long-term investment outlook. The strategies adopted by the investment policies recognize that within normal market cycles there may be periods of year after year absolute market declines. The Home maintains three investment portfolios in which resources from "institutional endowment funds" and expendable resources are pooled for economies of scale and effective diversification. The Home has established a withdrawal policy for funding to be provided by the "institutional endowment funds" for the operations of the Home. The Home's withdrawal policy is in a period of transition reducing by an annual dollar amount over a five year period to achieve a more conservative withdrawal rate of five percent. The withdrawal policy is reviewed and approved, at least annually, by the Board. When reached, the withdrawal rate is to be applied to a trailing three year average of the fair values for the previous fiscal year end.

Assets of the Home are diversified to protect against large investment losses and to reduce the probability of excessive performance volatility. Asset allocation is a delegated responsibility of the investment managers. Deviations from the target allocations in excess of five percent require Board approval. The Board has hired an investment consultant to monitor the compliance of the investment managers with the policies and the performance of the diversification in meeting the objectives. The need to rebalance is monitored by the investment consultant with an evaluation presented at least annually to the Board. The Home expects its investments to achieve an absolute return over a three-year period of the rate of inflation measured by the consumer price index plus at least four percent. Actual returns in any given year may vary from this amount.

EPWORTH CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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2. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

The Home considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and equipment

The Home capitalizes all property and equipment at cost if purchased or fair value if received by gift. Items deemed insignificant in value or with an estimated useful life of less than three years are expensed in the year acquired.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

Land and improvements	10 to 20 years
Buildings	15 to 40 years
Furniture and equipment	5 to 7 years
Automobiles	5 years

Support and expenses

A contribution is deemed to have been received when the cash or other assets including securities, land, buildings, use of facilities, materials and supplies, intangible assets, services or unconditional promise to give such items in the future is received. An unconditional promise to give is a promise, which is not dependent on the occurrence of a specified future and uncertain event to bind the promisor.

Contributions received and unconditional promises to give are measured at their fair values and are reported as increase in net assets. 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, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The financial statements present expenses in accordance with the overall service mission of the Home displayed within their natural classifications.

EPWORTH CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

-CONTINUED-

2. Summary of Significant Accounting Policies (Continued)

Functional expenses

The functional allocations of the expenses by natural classification are based on direct charges and management's estimates.

In-kind support

The Home records various types of in-kind support including contributed services and materials. Contributed services are recognized if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. When in-kind support is received, it is reflected in the accompanying financial statements as in-kind support and offset by like amounts included in asset valuations or expenses. No donated services were recognized during the current fiscal year.

Investment earnings

Unless specific prohibitive clauses are contained in the gift instruments, funds for investment have been combined into investment pools. Revenue arising from the ownership or disposition of pooled investments is allocated to the various programs or sub-funds based on a weighted average of the estimated invested balances.

Income taxes

Epworth Children's Home is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. Certain unrelated business income, if any, may be subject to tax.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain amounts from 2010 have been reclassified to conform to the 2011 presentation.

EPWORTH CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

-CONTINUED-

3. Beneficial Interests

Legacies and bequests

The Home is the beneficiary under various wills and trust agreements from which the realizable amounts are not presently determinable. Such amounts will be recorded when clear title is established and the proceeds are measurable. Measurable legacies and bequests at September 30, 2011 totaling \$1,254,540 are reflected in the financial statements as bequests receivable. All of which are anticipated to be collected in the subsequent fiscal year.

Funds held in trust by others

Funds held in trust consist of split-interest agreements that name the Home as a beneficiary. The trust agreements do not provide the Home with control over the investment of assets. These assets are measured at the present value of the expected future cash flows from the trust account. The discount rate used to determine the present value is determined at the date of the gift and remains constant throughout the life of the trust. Changes in the value of the assets are included in the statement of activities as investment income in the unrestricted net assets unless the income or loss is permanently restricted by the donor. Distributions to the Home during the life of the agreement are recognized as investment earnings in the appropriate net asset classification in accordance with the donor's wishes. Assets held in trust by others of \$242,882 were reported in the financial statements as of September 30, 2011.

4. Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Home to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents and investments are maintained at high-quality financial institutions. At September 30, 2011, the bank balances of cash and cash equivalents totaled \$621,082, of which \$250,000 was covered by federal deposit insurance. The financial institution holding the bank balance has pledged U.S. Government debt securities as collateral for deposit balances in excess of the federal deposit insurance. The marketable securities included in the investment pools are diversified among securities and issuers to provide protection from concentrations. The short-term investments are held in deposit and money funds which are subject to federal insurance under the Securities Investment Protection Corporation (SIPC). At September 30, 2011, the balances held in short-term investments totaled \$990,401, of which \$490,401 was not covered by federal insurance. Additional private insurance coverage is provided by the brokerage firm. The Home has not experienced any losses on its cash equivalents or short-term investments during the year.

EPWORTH CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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5. Investments

Investments consist of the following at September 30, 2011:

	<u>Cost</u>	<u>Fair Value</u>
Short-term investments	\$ 990,401	\$ 990,401
Stocks	7,977,605	8,062,953
Fixed income:		
Corporate bonds and notes	2,432,406	2,518,104
Government bonds and notes	1,417,917	1,589,849
Sponsored bonds and notes	20,150	22,156
Total fixed income	<u>3,870,473</u>	<u>4,130,109</u>
Real estate held for sale	<u>3,753,425</u>	<u>3,753,425</u>
	<u>\$ 16,591,904</u>	<u>\$ 16,936,888</u>

The investment pool is comprised of stocks (47.6%), fixed income (24.4%), short-term investments (5.8%), and real estate (22.2%).

Earnings from investments consisted of the following for the year ended September 30, 2011:

	<u>Endowment Investments</u>	<u>Other Assets</u>	<u>Total</u>
Interest and dividends, net of amortization	\$ 368,707	\$ 1,193	\$ 369,900
Investment fees	(91,583)	-	(91,583)
Change in Trust market value	-	(11,966)	(11,966)
Unrealized losses	(981,486)	-	(981,486)
Realized gains	991,837	-	991,837
Investment earnings, net of fees	<u>\$ 287,475</u>	<u>\$ (10,773)</u>	<u>\$ 276,702</u>

EPWORTH CHILDREN'S HOME

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

-CONTINUED-

5. Investments (Continued)

The investment yield on endowment investments (income earned on investments as a percentage of average annual total investments at fair value) was 2.06% and 2.42% for fiscal year 2011 and 2010, respectively. The investment yield on endowment investments on a total return concept [income earned plus market appreciation (depreciation)] as a percentage of average annual total investments at fair value was 2.14% and 9.88% for fiscal year 2011 and 2010, respectively.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks could materially affect the amounts reported in the statement of financial position.

6. Fair Value

Information about the fair value of financial instruments for which it is practical to estimate that value, whether or not recognized in the Statement of Financial Position, is required to be disclosed. Fair value is determined using various methods and assumptions.

The following methods and assumptions were used to estimate the fair value for the classification within the financial statements:

Cash, accounts receivables, bequests receivables, payables, and funds held for students – fair value approximates the carrying value due to the short maturity of these financial instruments.

Investments – fair value of debt and equity security investments are estimated based on quoted market prices. For other investments for which there are no quoted market prices, a reasonable estimate of fair value could not be made without incurring excessive costs. It was not practical to estimate the fair value of the real estate. These investments are carried at the fair value at the time of acquisition.

Funds held by others – fair value is approximated by the fund balance reported by the custodian based on market values of the underlying allocation of the pooled investment assets. If custodial information is not available cash flow techniques are utilized based on actuarially determined life expectancies or the contractual terms of the trust.

Cash surrender value of life insurance – the carrying amounts approximate fair value due to the frequency of change in the earnings rate.

Annuities payable – fair values approximated by the carrying value are determined through actuarially determined present value of the required cash payments.

EPWORTH CHILDREN'S HOME

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

-CONTINUED-

6. Fair Value (Continued)

When quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instrument. The following levels of input for measurement of fair value have been defined to assist the user in evaluating the fair value disclosure information:

- Level 1 Quoted prices in an active market for identical assets or liabilities.
- Level 2 Other quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active for transactions or availability of information, other observable sources of information, and information derived principally from or corroborated from observable sources of information.
- Level 3 Unobservable sources of information, primarily management's assumptions about potential market participants.

The estimated fair values of the Home's financial instruments are as follows and are included in the statement of financial position under similar descriptions:

	Level	Carrying Value	Fair Value
Financial assets			
Cash	1	\$ 557,912	\$ 557,912
Accounts receivables	1	243,848	243,848
Bequests receivables	2	1,254,540	1,254,540
Investments:			
Money funds	1	990,401	990,401
Fixed income securities	1	4,130,109	4,130,109
Equity securities	1	8,062,953	8,062,953
Real estate holdings	3	3,753,425	3,753,425
Total investments		16,936,888	16,936,888
Cash surrender value of life insurance	2	30,783	30,783
Funds held by others	2	242,882	242,882
Financial liabilities			
Payables	1	34,172	34,172
Annuities payable	2	64,069	64,069
Funds held for students	1	6,921	6,921

EPWORTH CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

-CONTINUED-

6. Fair Value (Continued)

Certain instruments including all nonfinancial instruments are excluded from the fair value disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the value of the Home.

The Home recognized \$981,486 in unrealized losses resulting from changes in fair value during the period. This amount is reported as investment income in the unrestricted and temporarily restricted net assets within the Statement of Activities.

7. Property and Equipment

Property and equipment consists of the following:

	Balance September 30, 2010	Additions	Disposals	Balance September 30, 2011
Land and improvements	\$ 1,432,589	\$ -	\$ -	\$ 1,432,589
Buildings	11,214,131	-	-	11,214,131
Automobiles	288,064	13,112	-	301,176
Furniture and equipment	1,752,435	52,349	-	1,804,784
Building renovation in progress	-	26,229	-	26,229
Total property and equipment	14,687,219	91,690	-	14,778,909
Less: Accumulated depreciation	(8,270,600)	(366,287)	-	(8,636,887)
Net property and equipment	<u>\$ 6,416,619</u>	<u>\$ (274,597)</u>	<u>\$ -</u>	<u>\$ 6,142,022</u>

Depreciation expenses amounted to \$366,287 during the year ended September 30, 2011.

EPWORTH CHILDREN'S HOME
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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8. Leases as Lessor

The Home executed a lease for office space in July 2007 with the South Carolina United Methodist Foundation. Under the terms of the lease, the Home will receive monthly rent payments of \$1,000 with annual escalations of approximately 4.00% expiring June 30, 2017. The lease contains an option for an additional five year renewal at expiration. The Home recognized \$13,633 in the year ended September 30, 2011 as rent revenue under this agreement. The future required minimum lease payments are as follows:

Fiscal year ending September 30,		
2012	\$	14,179
2013		14,746
2014		15,336
2015		15,949
2016		16,587
Thereafter		<u>12,810</u>
	\$	<u>89,607</u>

9. Annuities Payable

The amounts reported as annuities payable represent amounts due to donors and others under various agreements. The related assets are reported together in the pooled investments of the Home, as there is no legal requirement to maintain these separately. Discount rates and actuarial assumptions vary by agreement.

Other information relating to these split-interest agreements is as follows:

	<u>2011</u>
Valuation	\$ 64,069
Contributions	\$ -
Actuarial loss	\$ 2,121
Payments made	\$ 6,700

EPWORTH CHILDREN'S HOME
 NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

-CONTINUED-

10. Temporarily Restricted Net Assets

Net assets during the year ended September 30, 2011 were released from donor restrictions by incurring expenses satisfying the restricted purposes, purchase of property and equipment, and by occurrence of other events specified by donors as follows:

Purpose restrictions accomplished by:	
Child development	\$ 93,507
Education	36,307
Other program support	9,318
Total	<u>\$ 139,132</u>

Temporarily restricted net assets at September 30, 2011 are available for the following purposes:

Education	\$ 3,154,967
Campus and other capital improvements	51,747
Child development:	
EEIC program	54,661
Funds held for Downs Syndrome Committee	14,128
Other:	
Emergency fund	392
Life insurance held for education	29,952
Total	<u>\$ 3,305,847</u>

11. Permanently Restricted Net Assets

Permanently restricted net assets to be held in perpetuity were \$1,970,500 at September 30, 2011.

EPWORTH CHILDREN'S HOME

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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12. Classification of Endowment Fund

The Home's "institutional endowment funds" consist of donor-restricted resources segregated into "funds" for management and monitoring for which the gifts are held in tact in perpetuity. The income generated from these resources is to be used for various programs within the charitable purpose of the Home. As required by generally accepted accounting principles, net assets associated with the "institutional endowment funds" are classified and reported based on the existence or absence of donor-imposed restrictions. The following depicts the net asset composition of the "institutional endowment funds" as of the year-ended:

	<u>September 30, 2011</u>
Net asset classification:	
Unrestricted	\$ 371,427
Temporarily restricted	3,305,847
Permanently restricted	<u>1,970,500</u>
 Total endowment funds	 5,647,774
 Funds not meeting the definition	 <u>19,586,351</u>
 Total reported net assets	 <u><u>\$ 25,234,125</u></u>

From time to time, the fair value of assets associated with individual donor-restricted "funds" may fall below the level that the donor or the Act requires the Home to retain as a fund of perpetual duration. As of September 30, 2011, the Home has no "funds" for which the current value is below the level required by the donor or the Act.

EPWORTH CHILDREN'S HOME

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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12. Classification of Endowment Fund (Continued)

The following depicts the activity in the "institutional endowment funds" by net asset classification for the year-ended:

	September 30, 2011			Total
	Unrestricted	Temporarily	Permanently	
Change in endowment funds:				
Beginning net assets	\$ 371,018	\$ 3,294,135	\$ 1,910,075	\$ 5,575,228
Contributions	-	71,525	60,425	131,950
Investment income	409	79,319	-	79,728
Board approved payouts	-	(139,132)	-	(139,132)
Ending net assets	<u>\$ 371,427</u>	<u>\$ 3,305,847</u>	<u>\$ 1,970,500</u>	<u>\$ 5,647,774</u>

13. Defined Contribution Retirement Plan

The Home has a defined contribution retirement plan administered by the General Board of Pensions of the United Methodist Church. Under this plan, the Home contributes six (6) percent while the employee pays a minimum of three (3) percent of his or her annual salary through payroll deductions. The Home expensed \$83,524 in the current year for the plan. A total of \$163,648 was remitted as contributions to the plan by the Home in the current fiscal year.

14. Comparative Amounts

The financial statements included certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended September 30, 2010 from which the summarized information was derived.

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15. Subsequent events

During the year ended September 30, 2011, the Home decided to change their year end to December 31, 2011. Effective December 31, 2011, the Home's fiscal year will be January 1, through December 31.

Subsequent events were evaluated through December 1, 2011, which is the date the financial statements were available for issue. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.