

SMOKY MOUNTAIN CHILDREN'S HOME

Financial Statements

August 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Smoky Mountain Children's Home

We have audited the accompanying financial statements of Smoky Mountain Children's Home (a nonprofit organization) which comprise the statement of financial position as of August 31, 2021 and 2020, and the related statement 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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smoky Mountain Children's Home as of August 31, 2021 and 2020, 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.

Report on Summarized Comparative Information

We have previously audited Smoky Mountain Children's Home's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 13, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

WEDGEWOOD ACCOUNTING, PLLC
Certified Public Accountants

Cleveland, Tennessee

January 13, 2022

SMOKY MOUNTAIN CHILDREN'S HOME*Statement of Financial Position**For the Years Ended August 31, 2021 and 2020*

	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,405,192	\$ 1,425,712
Accounts receivable	341,096	385,098
Total Current Assets	<u>\$ 1,746,288</u>	<u>\$ 1,810,810</u>
NON-CURRENT ASSETS:		
Property and equipment, net	\$ 2,817,419	\$ 2,786,171
Investments	814,977	720,139
Total Non-Current Assets	<u>\$ 3,632,396</u>	<u>\$ 3,506,310</u>
OTHER ASSETS:		
Donated land - held for sale	\$ 52,000	\$ 52,000
Restricted cash - custodial funds	21,946	12,664
Total Other Assets	<u>\$ 73,946</u>	<u>\$ 64,664</u>
TOTAL ASSETS	<u><u>\$ 5,452,630</u></u>	<u><u>\$ 5,381,784</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 44,520	\$ 67,411
Due to foster parents	75,085	73,235
Custodial funds	21,946	12,664
Escrow payment for land sale	0	159,980
Accrued payroll	299,530	333,116
Lease liability, current portion	54,993	16,351
Total Current Liabilities	<u>\$ 496,074</u>	<u>\$ 662,757</u>
NON-CURRENT LIABILITIES:		
Lease liability	\$ 130,487	\$ 2,083
SBA PPP loan proceeds	0	892,600
Total Noncurrent Liabilities	<u>\$ 130,487</u>	<u>\$ 894,683</u>
Total Liabilities	<u>\$ 626,561</u>	<u>\$ 1,557,440</u>
NET ASSETS:		
Without Donor Restrictions	\$ 4,163,281	\$ 3,074,305
With Donor Restrictions	662,788	750,039
Total Net Assets	<u>\$ 4,826,069</u>	<u>\$ 3,824,344</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,452,630</u></u>	<u><u>\$ 5,381,784</u></u>

The accompanying notes are an integral part of these financial statements.

SMOKY MOUNTAIN CHILDREN'S HOME*Statement of Activities**For the Years Ended August 31, 2021 and 2020*

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2021 Total	2020 Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 1,668,047	\$ 199,371	\$ 1,867,418	\$ 1,414,822
Forgiven SBA covid loan	1,724,916	0	1,724,916	0
Foster program	3,804,518	0	3,804,518	5,287,326
Gifts-in-kind	70,712	0	70,712	924,245
Investment income	127,665	0	127,665	60,746
Gain/(loss) on sale of property	234,980	0	234,980	15,553
Other	110,261	0	110,261	19,780
Total Revenues, Gains and Other Support	<u>\$ 7,741,099</u>	<u>\$ 199,371</u>	<u>\$ 7,940,470</u>	<u>\$ 7,722,472</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>\$ 286,622</u>	<u>\$ (286,622)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Revenue and Support	<u>\$ 8,027,721</u>	<u>\$ (87,251)</u>	<u>\$ 7,940,470</u>	<u>\$ 7,722,472</u>
EXPENDITURES				
Program services	\$ 6,126,331	\$ 0	\$ 6,126,331	\$ 6,675,859
Management and general	704,634	0	704,634	832,927
Fundraising	107,781	0	107,781	164,154
Total Expenditures	<u>\$ 6,938,745</u>	<u>\$ 0</u>	<u>\$ 6,938,745</u>	<u>\$ 7,672,940</u>
INCOME/LOSS FROM CONTINUING OPERATIONS	<u>\$ 1,088,976</u>	<u>\$ (87,251)</u>	<u>\$ 1,001,725</u>	<u>\$ 49,532</u>
CHANGE IN NET ASSETS	\$ 1,088,976	\$ (87,251)	\$ 1,001,725	\$ 49,532
NET ASSETS - BEGINNING OF YEAR	<u>3,074,305</u>	<u>750,039</u>	<u>3,824,344</u>	<u>3,774,812</u>
NET ASSETS - END OF YEAR	<u><u>\$ 4,163,281</u></u>	<u><u>\$ 662,788</u></u>	<u><u>\$ 4,826,069</u></u>	<u><u>\$ 3,824,344</u></u>

SMOKY MOUNTAIN CHILDREN'S HOME*Statement of Functional Expenses**For the Years Ended August 31, 2021 and 2020*

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>2021 Total</u>	<u>2020 Total</u>
Salaries	\$ 2,201,441	\$ 495,324	\$ 55,036	\$ 2,751,802	\$ 3,092,316
Health insurance	296,868	66,795	7,422	371,085	435,190
Supplies	147,158	33,110	3,679	183,947	385,850
Telephone, utilities and cable	211,377	47,560	5,284	264,221	275,170
Insurance	96,276	24,069	0	120,345	109,121
Automobile	20,621	4,640	516	25,776	40,383
General Assembly	310	0	0	310	2,974
Repairs and maintenance	79,638	0	0	79,638	137,951
Landscaping and grounds	66,783	0	0	66,783	57,072
Depreciation	324,031	0	0	324,031	263,888
Professional fees	0	31,962	0	31,962	43,846
Board and committee	0	1,173	0	1,173	6,053
Promotion	0	0	35,844	35,844	79,576
Foster family care	2,309,811	0	0	2,309,811	2,527,906
Special projects	296,077	0	0	296,077	118,238
Interest expense	6,512	0	0	6,512	2,114
Miscellaneous	69,428	0	0	69,428	95,292
TOTALS	<u>\$ 6,126,331</u>	<u>\$ 704,634</u>	<u>\$ 107,781</u>	<u>\$ 6,938,745</u>	<u>\$ 7,672,940</u>

SMOKY MOUNTAIN CHILDREN'S HOME*Statement of Cash Flows**For the Years Ended August 31, 2021 and 2020*

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,001,725	\$ 49,532
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	\$ 324,031	\$ 263,888
Gain/Loss on sale of asset	(234,980)	(15,553)
Change in assets and liabilities affecting cash flows:		
Change in accounts receivable	44,002	169,064
Change in accounts payable	(22,891)	(82,721)
Change in due to foster parents	1,850	(40,018)
Change in escrow payment	(159,980)	159,980
Change in accrued payroll	(33,586)	(858)
Total adjustments	\$ (81,554)	\$ 453,782
Net cash provided by operating activities	\$ 920,171	\$ 503,314
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of asset	\$ 234,980	\$ 15,553
Donated land held for resale	(52,000)	(52,000)
Purchase of property and equipment	(88,460)	(986,256)
Increase in investments	(94,838)	82,469
Net cash used in investing activities	\$ (318)	\$ (940,234)
CASH FLOWS FROM FINANCING ACTIVITIES:		
SBA PPP loan proceeds	\$ 0	\$ 892,600
Forgiveness of SBA PPP loan	(892,600)	0
Payments on capital lease liability	(47,773)	(18,422)
Net cash provided by (used in) financing activities	\$ (940,373)	\$ 874,178
Net increase (decrease) in cash and cash equivalents	\$ (20,520)	\$ 437,258
Cash and cash equivalents at beginning of year	1,425,712	988,454
Cash and cash equivalents at end of year	\$ 1,405,192	\$ 1,425,712
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 6,512	\$ 2,114
Supplemental disclosure of noncash information:		
Receipt of gifts in-kind inventory	\$ 70,712	\$ 924,245

SMOKY MOUNTAIN CHILDREN'S HOME

Notes to Financial Statements

For the Years Ended August 31, 2021 and 2020

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Smoky Mountain Children's Home ("the Home") is a nonprofit organization that was chartered in the State of Tennessee in 1946. The Home's mission is to provide professional care and treatment for boys and girls referred for services due to emotional, behavioral, and life situations. The Home primarily serves at-risk children and teens, ages 5 to 17, through its residential and foster care programs located in Sevierville, Tennessee.

Basis of Accounting

The accounts of the Home are maintained on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when the obligation is incurred.

Financial Statement Presentation

Net assets, revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Home and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

Net Assets With Donor Restrictions - Net assets subject to specific, donor or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Liquidity

Assets are presented in the accompanying Statement of Financial Position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Home considers all unrestricted bank and similar deposits, demand accounts, money market funds and short-term investments with an original maturity of three months or less to be cash equivalents, except those held for long-term investment. The Home maintains bank accounts with balances, which, at times, may exceed federally insured limits. The Home has not experienced any losses to date.

Support and Revenue

Contributions are recorded as support when cash or other assets are received. Contributions are considered available for without donor restrictions use unless specifically restricted by the donor. Gifts of cash and other assets that are restricted by the donor for specific purposes are reported as with donor restrictions support, depending on the nature of the restriction. When a donor restriction expires, that is, when a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets without donor restrictions. Restricted grants and contributions whose restrictions are met in the same reporting period as they are received are reported as without donor restrictions support. Revenue from services is recognized when the service is rendered.

Contributions of property and equipment and other long-lived assets with explicit restrictions that specify how the assets are to be used, including cash contributed to acquire such assets, are recorded as with donor restrictions support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service.

Smoky Mountain Children's Home provides contracted services for the State of Tennessee Department of Children's Services for care of orphaned, abused juvenile justice system and other children in need of care services either with foster homes or housed on the Sevierville campus. Contracts with the State provide for monthly payments for each child based upon various care classifications. These contract revenues represent approximately 80 percent of Smoky Mountain Children's Home revenues.

Investments

Investments are initially recorded at cost, if purchased, or, if donated, at fair market value on the date received. Investment securities are reflected at market value, and realized and unrealized gains and losses are recognized as changes in unrestricted net assets, unless restricted by the donor, in which case the amounts are reflected as with donor restrictions until expended according to the donors' stipulations.

SMOKY MOUNTAIN CHILDREN'S HOME

Notes to Financial Statements

For the Years Ended August 31, 2021 and 2020

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Property and Equipment

Property and equipment are recorded at cost or estimated cost if actual cost is not available. Donated property and equipment are recorded at the estimated fair value at the date of receipt. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from five to thirty-nine years. Assets under capital leases are depreciated over the shorter of their estimated useful lives or the term of the related lease. The Home generally capitalizes all expenditures for property and equipment in excess of \$2,500. Costs of maintenance and repair are expensed as incurred.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are charged to program services, management and general and fundraising functions based on direct expenses incurred. Indirect expenses are allocated among the program and supporting services benefited.

Income Taxes

The Home is exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code, except on unrelated business income. The Home had no unrelated business income for the years ended August 31, 2021 and 2020. The Home's Return of Organization Exempt from Income Tax, Form 990, is open and subject to audit by the Internal Revenue Service generally for three years after the form is filed. The Home believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

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, disclosure of contingent 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 those estimates.

Advertising Costs

Advertising costs are charged to fundraising when incurred. There were no advertising expenses incurred for the year ended August 31, 2021 and 2020.

Subsequent Events

In preparing these financial statements, the Home has evaluated events and transactions that occurred between August 31, 2021 and January 13, 2022, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Recent Accounting Guidance

The Financial Accounting Standards Board issued ASU-2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, modifying ASC 958. The Home has adjusted the presentation of its financial statements accordingly. The new standards change the following aspects of the Home's financial statements:

- The unrestricted net asset class has been renamed to net assets without donor restrictions.
- The temporarily and permanently restricted net asset classes have been combined to a single net asset called net assets with donor restrictions.
- The financial statements include a new note disclosure about liquidity and availability of resources (Note 2).

Note 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

Cash	\$	1,405,192
Accounts Receivable		341,096
Investments		814,977
Total Financial Assets	\$	2,561,265
Less those unavailable for general expenditures within one year due to donor restrictions:		662,788
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>1,898,477</u>

Smoky Mountain Children's Home is substantially supported by the percentage of donations they receive from Church of God churches, as well as from other donors. As part of the Home's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. These funds could be drawn upon by the Home in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling liabilities.

SMOKY MOUNTAIN CHILDREN'S HOME*Notes to Financial Statements**For the Years Ended August 31, 2021 and 2020***Note 3 - DONATED GOODS AND SERVICES**

Donated goods and services are recorded in the financial statements at the fair value of the goods and services received. Donated goods and services for the years ended August 31, 2021 and 2020, were as follows:

	August 31	
	2021	2020
Deerfield Circle Land	\$ 52,000	\$ 52,000
Supplies	28,260	129,976
Total	<u>\$ 80,260</u>	<u>\$ 181,976</u>

Note 4 - PROPERTY AND EQUIPMENT, NET

The cost and related accumulated depreciation of property and equipment as of August 31, 2021 and 2020, consisted of the following:

	Balance 8/31/2020	Additions & (Deletions)	Balance 8/31/2021
Land and building	\$ 7,053,662	\$ 46,221	\$ 7,099,883
Furniture and equipment	616,091	288,514	904,605
Vehicles	455,707	20,544	476,251
	<u>\$ 8,125,460</u>	<u>\$ 355,279</u>	<u>\$ 8,480,739</u>
Less: Accumulated Depreciation	(5,339,289)	(324,031)	(5,663,320)
Property and Equipment, net	<u>\$ 2,786,171</u>	<u>\$ 31,248</u>	<u>\$ 2,817,419</u>

As of August 31, 2021 and 2020, assets recorded under capital leases totaled \$233,253 with related accumulated depreciation of \$157,744 and \$101,909, respectively.

For the years ended August 31, 2021 and 2020, depreciation expense was \$324,031 and \$263,888, respectively.

Note 5 - CONCENTRATION OF CREDIT RISK

The Home maintains its cash balances in several local financial institutions in Tennessee. The balances at these financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of August 31, 2021, cash balances exceeded FDIC limits by \$395,612. Significant concentration credit risk may result from the fact that the Home has cash in excess of the FDIC coverage; however, the Home has not experienced any losses in such accounts.

Note 6 - INVESTMENTS

The Home has a single investment that is valued at fair market value. Accounting Standards Codification 820, *Fair Value Measurements*, requires that assets and liabilities stated at their fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, be classified into one of three levels. The levels are determined by the inputs used to measure the fair value. They are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable input other than Level 1 prices, such as quoted prices, for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Below is a description of the inputs and valuation methodologies used for assets of the Home.

Investments in equity securities and debt securities with readily determinable fair values are carried at fair value based on quoted prices in active markets (all Level 1 measurements). Investments at August 31, 2021, consisted of the following:

Investment Description	Level 1
Equity Securities	\$ 548,159
Debt Securities	266,818
Total	<u>\$ 814,977</u>

SMOKY MOUNTAIN CHILDREN'S HOME*Notes to Financial Statements**For the Years Ended August 31, 2021 and 2020***Note 7 - ACCRUED LEAVE**

Employees accrue between 40 and 160 hours of vacation leave, depending on length of service, with each full year of employment. Employees may accrue only the maximum days for which they are eligible based on their length of service. Any vacation leave over the maximum at August 31 expires. Upon resignation or termination, employees are entitled to any unused vacation leave that they have accumulated. Accrued vacation leave was \$3,000 at August 31, 2021 and 2020. Employees accrue 24 hours of personal leave with each full year of employment. Personal leave does not accrue year to year and all unused personal leave at August 31 is lost. Employees are not paid for unused personal leave upon resignation or termination.

Note 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following activities as of August 31:

	2021	2020
Cottage #2	\$ 15,387	\$ 21,161
Cottage #3	49,741	38,287
Cottage #4	14,503	10,316
Cottage #5	44,955	44,029
Cottage #6	53,502	43,681
Cottage #7	95,224	102,726
Cottage #8	(73,425)	32,053
Cottage #9	11,462	14,059
Cottage #10	35,414	33,879
Cottage #11	158,940	118,434
Yellow Rose Cottage - Cottage #1	66,875	53,812
Margarette Catha Scholarship Fund	9,999	9,999
Scholarships	250	250
Building projects	17,848	21,005
Miscellaneous special projects	162,113	206,348
	<u>\$ 662,788</u>	<u>\$ 750,039</u>

Note 9 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses that satisfied the restricted purposes during the year ended August 31:

	2021	2020
Cottage #2	\$ 8,973	\$ 5,965
Cottage #3	5,799	6,554
Cottage #4	8,735	8,706
Cottage #5	6,954	2,640
Cottage #6	7,159	13,375
Cottage #7	7,532	6,876
Cottage #8	123,504	4,827
Cottage #9	8,711	6,901
Cottage #10	4,403	4,561
Cottage #11	23,910	6,826
Yellow Rose Cottage - Cottage #1	5,440	9,352
Sara Bolt Scholarship Fund	0	(53)
Max Brandt Scholarship Fund	0	895
Stan Price Memorial Fund	0	6,488
Building Projects	4,432	353
Miscellaneous special projects	71,070	24,897
	<u>\$ 286,622</u>	<u>\$ 109,163</u>

SMOKY MOUNTAIN CHILDREN'S HOME*Notes to Financial Statements**For the Years Ended August 31, 2021 and 2020***Note 10 - CUSTODIAL FUNDS**

For the benefit of the children, the Home maintains an account with funds received for children allowances. The funds in this account belong to the children, and children can make withdrawals at their discretion within specific guidelines. The balance as of August 31, 2021 and 2020, was \$21,946 and \$12,664, respectively.

Note 11 - MINERAL RIGHTS

The Home previously received a gift of land for property located in Bottineau County, North Dakota. The property was sold during the year ended August 31, 2012; however, the Home retained certain mineral rights on the property. The Home has entered into oil and gas leases with a petroleum company granting the petroleum company exploration and mining rights. The Home did not receive a lease bonus in the year ended August 31, 2020, related to the oil and gas leases but will receive a percentage of proceeds should oil, gas or other sellable resources be found on the property. No such discoveries had been made as of August 31, 2021. No value has been reported in the accompanying financial statements for the Home's mineral rights.

Note 12 - RETIREMENT PLAN

The Home sponsors, through the Church of God Benefits Board, a 403(b) retirement savings plan for its employees. Reporting on a calendar year, this defined contribution plan allows eligible, nonmanagement employees to contribute a percentage of their compensation on a tax-deferred basis, subject to a limit of \$19,000 per employee in 2021. These contributions are not matched by the Home. Under the same plan, the Home provides the 403(b) contributions for certain members of management on their behalf subject to IRS limitations.

Note 13 - LEASE DISCLOSURES

The Home leases various equipment (data equipment, phones and copiers) used in the normal course of business operations. The original terms of the leases are for three or five years and the leases are classified as capital leases. The assets held under capital leases are included in property and equipment. The minimum future obligations under these leases as of August 31, 2021, are as follows:

August 31	Amount
2022	\$ 62,527
2023	60,427
2024	42,736
2025	30,101
2026	8,088
Total future minimum lease payments	\$ 203,879
Less: Interest	18,368
Present value of future minimum capital lease payments	<u>\$ 185,511</u>

Total interest incurred for the year ended August 31, 2021, was \$6,512.

Note 14 - RECLASSIFICATION

Certain 2020 items have been reclassified in order to more clearly present the financial statements at August 31, 2021.

Note 15 - CONTINGENCIES - LITIGATION

The Home is party to a legal action that arose in the ordinary course of its operations. In management and legal counsel's opinion, the Home has adequate legal defenses and/or insurance coverage for this action and does not believe it will materially affect the Home's activities or financial position.

Note 16 - EXECUTIVE DIRECTOR COMPENSATION

The compensation process for top official directors' wages are set by the Church of God International Offices in Cleveland, Tennessee.

SMOKY MOUNTAIN CHILDREN'S HOME
Notes to Financial Statements
For the Years Ended August 31, 2021 and 2020
Note 17 - INTERNAL FUND ACCOUNTING

The accounts of the Home are maintained on a fund accounting basis for internal purposes. This allows the home to account for funds with donor imposed restrictions. The beginning fund balances, the results of each fund operations, and the ending balances as reported internally are shown below:

Funds	2020 Ending Fund Balance	Revenues	Expenses	Revenues Over (Under) Expenses	2021 Ending Fund Balance
General Fund -					
Unrestricted	\$ 3,074,305	\$ 7,741,099	\$ (6,652,123)	\$ 1,088,976	\$ 4,163,281
Cottage #2	21,161	3,199	(8,973)	(5,774)	15,387
Cottage #3	38,287	17,253	(5,799)	11,454	49,741
Cottage #4	10,316	12,922	(8,735)	4,187	14,503
Cottage #5	44,029	7,880	(6,954)	926	44,955
Cottage #6	43,681	16,980	(7,159)	9,821	53,502
Cottage #7	102,726	30	(7,532)	(7,502)	95,224
Cottage #8	32,053	18,026	(123,504)	(105,478)	(73,425)
Cottage #9	14,059	6,114	(8,711)	(2,597)	11,462
Cottage #10	33,879	5,938	(4,403)	1,535	35,414
Cottage #11	118,434	64,416	(23,910)	40,506	158,940
Yellow Rose Cottage -					
Cottage #1	53,812	18,503	(5,440)	13,063	66,875
Margarette Catha					
Scholarship Fund	9,999	0	0	0	9,999
Scholarships	250	0	0	0	250
Building projects	21,005	1,275	(4,432)	(3,157)	17,848
Miscellaneous					
special projects	206,348	26,835	(71,070)	(44,235)	162,113
Total	<u>\$ 3,824,344</u>	<u>\$ 7,940,470</u>	<u>\$ (6,938,745)</u>	<u>\$ 1,001,725</u>	<u>\$ 4,826,069</u>