

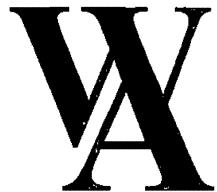
SMOKY MOUNTAIN CHILDREN'S HOME

Financial Statements

August 31, 2024 and 2023

SMOKY MOUNTAIN CHILDREN'S HOME*Financial Statements**August 31, 2024 and 2023***CONTENTS**

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Smoky Mountain Children's Home (a nonprofit organization) which comprise of the statement of financial position as of August 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smoky Mountain Children's Home (a nonprofit organization) as of August 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Smoky Mountain Children's Home and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Smoky Mountain Children's Home's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Smoky Mountain Children's Home's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Smoky Mountain Children's Home's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Smoky Mountain Children's Home's 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 12, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wedgewood Accounting, PLLC

WEDGEWOOD ACCOUNTING, PLLC

Certified Public Accountants

Cleveland, Tennessee

January 27, 2025

SMOKY MOUNTAIN CHILDREN'S HOME

Statement of Financial Position

For the Years Ended August 31, 2024 and 2023

	2024	2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 823,785	\$ 1,183,671
Accounts receivable	649,358	676,847
Total Current Assets	<u>\$ 1,473,143</u>	<u>\$ 1,860,518</u>
NON-CURRENT ASSETS:		
Property and equipment, net	\$ 3,768,332	\$ 3,150,657
Investments	584,932	837,117
Total Non-Current Assets	<u>\$ 4,353,264</u>	<u>\$ 3,987,774</u>
OTHER ASSETS:		
Donated land - held for sale	\$ 52,000	\$ 52,000
Restricted cash - custodial funds	22,589	23,472
Total Other Assets	<u>\$ 74,589</u>	<u>\$ 75,472</u>
TOTAL ASSETS	<u>\$ 5,900,996</u>	<u>\$ 5,923,764</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 170,701	\$ 134,035
Due to foster parents	126,147	155,538
Custodial funds	22,589	23,472
Accrued payroll	444,995	336,987
Deferred proceeds	141,554	0
Lease liability, current portion	98,355	95,815
Total Current Liabilities	<u>\$ 1,004,341</u>	<u>\$ 745,847</u>
NON-CURRENT LIABILITIES:		
Lease liability	\$ 115,224	\$ 112,927
Ogle loan payable	0	100,000
Total Noncurrent Liabilities	<u>\$ 115,224</u>	<u>\$ 212,927</u>
Total Liabilities	<u>\$ 1,119,565</u>	<u>\$ 958,774</u>
NET ASSETS:		
Without donor restrictions	\$ 2,994,683	\$ 3,487,731
With donor restrictions	<u>1,786,748</u>	<u>1,477,259</u>
Total Net Assets	<u>\$ 4,781,431</u>	<u>\$ 4,964,990</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,900,996</u>	<u>\$ 5,923,764</u>

SMOKY MOUNTAIN CHILDREN'S HOME

Statement of Activities

For the Years Ended August 31, 2024 and 2023

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2024 Total	2023 Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 1,689,017	\$ 688,383	\$ 2,377,400	\$ 2,199,517
Foster program	7,073,780	0	7,073,780	6,297,265
Gifts-in-kind	214,508	0	214,508	126,844
Insurance claims	0	0	0	121,200
Investment income	46,532	0	46,532	72,021
Gain on sale of property	4,000	0	4,000	13,909
Other	69,236	0	69,236	36,659
 Total Revenues, Gains and Other Support	 \$ 9,097,073	 \$ 688,383	 \$ 9,785,456	 \$ 8,867,415
 Net assets released from restrictions:				
Satisfaction of program restrictions	\$ 378,894	\$ (378,894)	\$ 0	\$ 0
 Total Revenue and Support	 \$ 9,475,967	 \$ 309,489	 \$ 9,785,456	 \$ 8,867,415
 EXPENDITURES				
Program services	\$ 8,870,105	\$ 0	\$ 8,870,105	\$ 7,491,178
Management and general	892,450	0	892,450	746,121
Fundraising	206,460	0	206,460	187,098
 Total Expenditures	 \$ 9,969,015	 \$ 0	 \$ 9,969,015	 \$ 8,424,397
 CHANGE IN NET ASSETS				
	\$ (493,048)	\$ 309,489	\$ (183,559)	\$ 443,018
 NET ASSETS - BEGINNING OF YEAR	 \$ 3,487,731	 \$ 1,477,259	 \$ 4,964,990	 \$ 4,521,972
 NET ASSETS - END OF YEAR	 \$ 2,994,683	 \$ 1,786,748	 \$ 4,781,431	 \$ 4,964,990

SMOKY MOUNTAIN CHILDREN'S HOME

Statement of Functional Expenses

For the Years Ended August 31, 2024 and 2023

	Program Services	Management and General	Fund Raising	2024 Total	2023 Total
Salaries	\$ 2,749,795	\$ 618,704	\$ 68,745	\$ 3,437,244	\$ 2,775,125
Health insurance	276,822	62,285	6,921	346,028	311,691
Supplies	321,397	72,314	8,035	401,746	358,033
Telephone, utilities and cable	242,484	54,559	6,062	303,105	288,408
Insurance	92,879	23,220	0	116,099	103,190
Automobile	34,966	7,867	875	43,708	27,949
General Assembly	74,747	0	0	74,747	10,452
Repairs and maintenance	298,015	0	0	298,015	189,888
Landscaping and grounds	75,500	0	0	75,500	70,798
Depreciation	378,644	0	0	378,644	315,635
Professional fees	0	36,044	0	36,044	34,660
Board and committee	0	17,457	0	17,457	13,806
Promotion	0	0	115,822	115,822	111,873
Foster family care	3,804,864	0	0	3,804,864	3,432,672
Special projects	384,972	0	0	384,972	137,674
Interest expense	3,565	0	0	3,565	12,934
Insurance claims	0	0	0	0	101,001
Miscellaneous	131,455	0	0	131,455	128,608
TOTALS	\$ 8,870,105	\$ 892,450	\$ 206,460	\$ 9,969,015	\$ 8,424,397

SMOKY MOUNTAIN CHILDREN'S HOME

Statement of Cash Flows

For the Years Ended August 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ (183,559)</u>	<u>\$ 443,018</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	\$ 378,644	\$ 315,635
Gain on sale of asset	(4,000)	(13,909)
Change in assets and liabilities affecting cash flows:		
Change in accounts receivable	27,489	(247,697)
Change in accounts payable	36,666	44,165
Change in due to foster parents	(29,391)	66,562
Change in accrued payroll	<u>108,008</u>	<u>28,720</u>
Total adjustments	<u>\$ 517,416</u>	<u>\$ 193,476</u>
Net cash provided by operating activities	<u>\$ 333,857</u>	<u>\$ 636,494</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of asset	\$ 4,000	\$ 22,575
Purchase of property and equipment	(996,320)	(475,895)
Decrease in investments	<u>252,185</u>	<u>(83,695)</u>
Net cash used in investing activities	<u>\$ (740,135)</u>	<u>\$ (537,015)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on ogle loan payable	\$ (100,000)	\$ (135,000)
Payments on capital lease liability	<u>146,392</u>	<u>78,257</u>
Net cash provided by (used in) financing activities	<u>\$ 46,392</u>	<u>\$ (56,743)</u>
Net change in cash and cash equivalents	\$ (359,886)	\$ 42,736
Cash and cash equivalents at beginning of year	<u>1,183,671</u>	<u>1,140,935</u>
Cash and cash equivalents at end of year	<u>\$ 823,785</u>	<u>\$ 1,183,671</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 3,565	\$ 12,934
Supplemental disclosure of noncash information:		
Receipt of gifts in-kind inventory	\$ 214,508	\$ 126,844

SMOKY MOUNTAIN CHILDREN'S HOME

Notes to Financial Statements

For the Years Ended August 31, 2024 and 2023

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-impaired 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.

SMOKY MOUNTAIN CHILDREN'S HOME

Notes to Financial Statements

For the Years Ended August 31, 2024 and 2023

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

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.

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, 2024 and 2023. 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.

Subsequent Events

In preparing these financial statements, the Home has evaluated events and transactions that occurred between August 31, 2024, and January 27, 2025, 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).

SMOKY MOUNTAIN CHILDREN'S HOME*Notes to Financial Statements*

For the Years Ended August 31, 2024 and 2023

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 as of August 31, 2024:

Cash	\$ 823,785
Accounts Receivable	649,358
Investments	<u>584,932</u>
Total Financial Assets	\$ 2,058,075
Less those unavailable for general expenditures within one year due to donor restrictions:	<u>1,786,748</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 271,327</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.

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, 2024 and 2023, were as follows:

	August 31	
	2024	2023
Buildings & Improvements	\$ 200,000	\$ 0
Supplies	14,508	97,044
Vehicles	0	29,800
Total	<u>\$ 214,508</u>	<u>\$ 126,844</u>

Note 4 - PROPERTY AND EQUIPMENT, NET

The cost and related accumulated depreciation of property and equipment as of August 31, 2024 and 2023, consisted of the following:

	Balance 8/31/2023	Additions & (Deletions)	Balance 8/31/2024
Land and building	\$ 7,621,617	\$ 774,850	\$ 8,396,467
Furniture and equipment	1,282,656	167,469	1,450,125
Vehicles	509,118	33,610	542,728
Less: Accumulated Depreciation	\$ 9,413,391	\$ 975,929	\$ 10,389,320
	<u>(6,262,734)</u>	<u>(358,254)</u>	<u>(6,620,988)</u>
Property and Equipment, net	<u>\$ 3,150,657</u>	<u>\$ 617,675</u>	<u>\$ 3,768,332</u>

As of August 31, 2024 and 2023, assets recorded under capital leases totaled \$580,908 with related accumulated depreciation of \$356,785 and \$279,808, respectively.

For the years ended August 31, 2024 and 2023, depreciation expense was \$378,644 and \$315,635, 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, 2024, cash balances exceeded FDIC limits by \$321,826. 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.

SMOKY MOUNTAIN CHILDREN'S HOME

Notes to Financial Statements

For the Years Ended August 31, 2024 and 2023

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, 2024, consisted of the following:

Investment Description	Level 1
Equity Securities	\$ 386,420
Debt Securities	198,512
Total	\$ 584,932

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, 2024 and 2023. 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:

	2024	2023
Cottage #2	\$ 230,545	\$ 241,567
Cottage #3	175,550	124,279
Cottage #4	37,440	24,256
Cottage #5	58,889	54,217
Cottage #6	149,848	125,233
Cottage #7	237,820	124,741
Cottage #8	32,727	2,098
Cottage #9	33,335	24,964
Cottage #10	102,042	91,078
Cottage #11	320,854	296,762
Yellow Rose Cottage - Cottage #1	137,386	114,218
Margarette Catha Scholarship Fund	9,999	9,999
Scholarships	250	250
Building projects	17,848	17,848
Miscellaneous special projects	242,215	225,749
	\$ 1,786,748	\$ 1,477,259

SMOKY MOUNTAIN CHILDREN'S HOME*Notes to Financial Statements*

For the Years Ended August 31, 2024 and 2023

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:

	2024	2023
Cottage #2	\$ 12,605	\$ 7,939
Cottage #3	7,368	8,364
Cottage #4	7,812	8,556
Cottage #5	3,132	2,317
Cottage #6	8,488	7,276
Cottage #7	9,376	12,392
Cottage #8	16,694	9,313
Cottage #9	5,685	4,948
Cottage #10	7,975	1,750
Cottage #11	24,066	1,821
Yellow Rose Cottage - Cottage #1	7,094	12,417
Miscellaneous special projects	<u>268,599</u>	<u>60,581</u>
	<u><u>\$ 378,894</u></u>	<u><u>\$ 137,674</u></u>

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, 2024 and 2023, was \$22,589 and \$23,472, 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, 2024. 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 \$23,000 per employee in 2024. 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.

SMOKY MOUNTAIN CHILDREN'S HOME

Notes to Financial Statements

For the Years Ended August 31, 2024 and 2023

Note 13 - FINANCE LEASES - OFFICE EQUIPMENT

The Home engages in finance leases for various office equipment (data equipment, phones and copiers) to support its operational activities. This equipment is essential for maintaining efficient administrative and operational functions within the Home. The finance leases are accounted for in accordance with ASC 842, *Leases*, which requires the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position.

Lease Accounting Policy

For finance leases, the Home recognizes a ROU asset and a lease liability at the lease commencement date. The lease liability is measured at the present value of the lease payments, while the ROU asset is initially measured at the same amount as the lease liability, adjusted for any prepaid lease payments, lease incentives received, and initial direct costs. Amortization of the ROU asset is recognized on a straight-line basis over the lease term as part of depreciation and amortization expenses, and interest on the lease liability is recognized in interest expense.

Quantitative Disclosure

As of August 31, 2024, the details of the Home's finance lease obligations for office equipment are as follows:

- Right-of-use of assets related to office equipment: \$296,790
- Current portion of finance lease liabilities (office equipment): \$98,355
- Long-term portion of finance lease liabilities (office equipment): \$115,224

The total finance lease liability for office equipment represents the present value of future minimum lease payments.

For the fiscal year ended August 31, 2024, the finance lease cost associated with office equipment included:

- Amortization of ROU assets (office equipment): \$133,321
- Interest on finance lease liabilities: \$3,565
- Total finance lease cost for office equipment: \$215,294

Maturity Analysis of Finance Lease Liabilities

The maturity analysis of the finance lease liabilities for office equipment as of August 31, 2024, is provided below:

Fiscal Year	Lease Payments	Interest	Present Value of Lease Payments
2025	\$ 98,355	\$ 1,624	\$ 99,979
2026	80,261	91	80,352
2027	25,715	0	25,715
2028	9,248	0	9,248
2029	0	0	0
Thereafter	0	0	0
Total	<u>\$ 213,579</u>	<u>\$ 1,715</u>	<u>\$ 215,294</u>

The weighted-average remaining lease term for the office equipment finance leases is four years, with a weighted-average discount rate of 2.60%.

Note 14 - RECLASSIFICATION

Certain 2023 items have been reclassified in order to more clearly present the financial statements at August 31, 2024.

Note 15 - 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, 2024 and 2023

Note 16 - 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	2023 Ending Fund Balance	Revenues	Expenses	Revenues Over (Under) Expenses	Net Transfers	2024 Ending Fund Balance
<u>Without Donor Restrictions</u>						
General Fund - Unrestricted	\$ 3,487,731	\$ 9,097,073	\$ (9,590,121)	\$ (493,048)	\$ 0	\$ 2,994,683
<u>With Donor Restrictions</u>						
Cottage #2	\$ 241,567	\$ 1,583	\$ (12,605)	\$ (11,022)	\$ 0	\$ 230,545
Cottage #3	124,279	58,639	(7,368)	51,271	0	175,550
Cottage #4	24,256	20,996	(7,812)	13,184	0	37,440
Cottage #5	54,217	7,804	(3,132)	4,672	0	58,889
Cottage #6	125,233	33,103	(8,488)	24,615	0	149,848
Cottage #7	124,741	122,455	(9,376)	113,079	0	237,820
Cottage #8	2,098	47,323	(16,694)	30,629	0	32,727
Cottage #9	24,964	14,056	(5,685)	8,371	0	33,335
Cottage #10	91,078	18,939	(7,975)	10,964	0	102,042
Cottage #11	296,762	48,158	(24,066)	24,092	0	320,854
Yellow Rose Cottage - Cottage #1	114,218	30,262	(7,094)	23,168	0	137,386
Margarette Catha Scholarship Fund	9,999	0	0	0	0	9,999
Scholarships	250	0	0	0	0	250
Building projects	17,848	0	0	0	0	17,848
Miscellaneous special projects	225,749	285,065	(268,599)	16,466	0	242,215
Total Funds With Donor Restrictions	\$ 1,477,259	\$ 688,383	\$ (378,894)	\$ 309,489	\$ 0	\$ 1,786,748
Total	\$ 4,964,990	\$ 9,785,456	\$ (9,969,015)	\$ (183,559)	\$ 0	\$ 4,781,431