

SMOKY MOUNTAIN CHILDREN'S HOME

Financial Statements

August 31, 2017 and 2016

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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 statements of financial position as of August 31, 2017 and 2016, and the related statements of activities 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smoky Mountain Children's Home as of August 31, 2017 and 2016, 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Statements of Functional Expenses on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Smoky Mountain Children's Home's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 3, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Arnett, Kirksey, Kimsey, Sullivan, Lay & Hall
ARNETT, KIRKSEY, KIMSEY, SULLIVAN, LAY & HALL, PLLC
Certified Public Accountants

Cleveland, Tennessee
January 31, 2018

SMOKY MOUNTAIN CHILDREN'S HOME*Statements of Financial Position**August 31, 2017 and 2016*

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,010,903	\$ 859,837
Cash and cash equivalents - discontinued operations	0	96,370
Accounts receivable	562,430	557,978
Total Current Assets	<u>\$ 1,573,333</u>	<u>\$ 1,514,185</u>
NON-CURRENT ASSETS:		
Property and equipment, net	\$ 2,070,499	\$ 2,004,388
Property and equipment, net - discontinued operations	0	3,237,164
Investments	669,368	1,021,190
Total Non-Current Assets	<u>\$ 2,739,867</u>	<u>\$ 6,262,742</u>
OTHER ASSETS:		
Donated land - held for sale	\$ 349,000	\$ 349,000
Restricted cash - custodial funds	15,829	11,911
Total Other Assets	<u>\$ 364,829</u>	<u>\$ 360,911</u>
TOTAL ASSETS	<u>\$ 4,678,029</u>	<u>\$ 8,137,838</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 49,600	\$ 127,147
Due to foster parents	111,579	104,035
Custodial funds	15,829	11,911
Accrued payroll	317,331	332,676
Lease liability, current portion	32,038	0
Total Current Liabilities	<u>\$ 526,377</u>	<u>\$ 575,769</u>
NON-CURRENT LIABILITIES:		
Lease liability	\$ 71,608	\$ 0
Total Noncurrent Liabilities	<u>\$ 71,608</u>	<u>\$ 0</u>
Total Liabilities	<u>\$ 597,985</u>	<u>\$ 575,769</u>
NET ASSETS:		
Unrestricted	\$ 3,666,908	\$ 7,321,254
Temporarily restricted	413,136	240,815
Total Net Assets	<u>\$ 4,080,044</u>	<u>\$ 7,562,069</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,678,029</u>	<u>\$ 8,137,838</u>

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

SMOKY MOUNTAIN CHILDREN'S HOME

Statements of Activities

For the Years Ended August 31, 2017 and 2016

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 1,564,334	\$ 229,192	\$ 1,793,526	\$ 1,745,763
Foster Program	6,327,697	0	6,327,697	5,909,502
Gifts-in-kind	67,653	0	67,653	57,795
Investment income	66,153	0	66,153	68,864
Other	21,540	0	21,540	15,621
Total Revenues, Gains and Other Support	\$ 8,047,377	\$ 229,192	\$ 8,276,569	\$ 7,797,545
Net assets released from restrictions:				
Satisfaction of program restrictions	\$ 56,871	\$ (56,871)	\$ 0	\$ 0
Total Revenue and Support	\$ 8,104,248	\$ 172,321	\$ 8,276,569	\$ 7,797,545
EXPENDITURES				
Program services	\$ 7,119,081	\$ 0	\$ 7,119,081	\$ 7,265,034
Management and general	1,135,769	0	1,135,769	977,316
Fundraising	165,687	0	165,687	156,738
Total Expenditures	\$ 8,420,537	\$ 0	\$ 8,420,537	\$ 8,399,088
INCOME FROM CONTINUING OPERATIONS	\$ (316,289)	\$ 172,321	\$ (143,968)	\$ (601,543)
DISCONTINUED OPERATIONS (NOTE 16)				
Loss from operations	\$ (145,178)	\$ 0	\$ (145,178)	\$ (65,462)
Loss on disposal	(3,192,879)	0	(3,192,879)	0
Loss from discontinued operations	\$ (3,338,057)	\$ 0	\$ (3,338,057)	\$ (65,462)
CHANGE IN NET ASSETS	\$ (3,654,346)	\$ 172,321	\$ (3,482,025)	\$ (667,005)
NET ASSETS - BEGINNING OF YEAR	7,321,254	240,815	7,562,069	8,229,074
NET ASSETS - END OF YEAR	\$ 3,666,908	\$ 413,136	\$ 4,080,044	\$ 7,562,069

SMOKY MOUNTAIN CHILDREN'S HOME

Statements of Cash Flows

For the Years Ended August 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (3,482,025)	\$ (667,005)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Loss on disposal of discontinued operations	\$ 3,192,879	\$ 0
Depreciation	304,909	362,202
Gain on sale of asset	(3,070)	(2,300)
Change in assets and liabilities affecting cash flows:		
Increase in accounts receivable	(4,452)	(22,917)
Change in accounts payable	(77,547)	25,898
Change in due to foster parents	7,544	(11,331)
Decrease in other liabilities	0	(19,907)
Decrease in accrued payroll	(15,345)	(2,961)
Total adjustments	\$ 3,404,918	\$ 328,684
Net cash used in operating activities	\$ (77,107)	\$ (338,321)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of asset	\$ 38,221	\$ 2,300
Purchase of property and equipment	(361,887)	(42,579)
Decrease in investments	351,822	105,069
Net cash provided by investing activities	\$ 28,156	\$ 64,790
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from capital lease liability	\$ 136,225	\$ 0
Payments on capital lease liability	(32,578)	0
Net cash provided by financing activities	\$ 103,647	\$ 0
Net increase (decrease) in cash and cash equivalents	\$ 54,696	\$ (273,531)
Cash and cash equivalents at beginning of year	956,207	1,229,738
Cash and cash equivalents at end of year	\$ 1,010,903	\$ 956,207
Less cash and cash equivalents of discontinued operations at end of year	0	96,370
Cash and cash equivalents of continuing operations at end of year	\$ 1,010,903	\$ 859,837
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 5,142	\$ 0
Supplemental disclosure of noncash information:		
Receipt of gifts in-kind inventory	\$ 67,653	\$ 57,795

SMOKY MOUNTAIN CHILDREN'S HOME

Notes to Financial Statements

For the Years Ended August 31, 2017 and 2016

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:

Unrestricted - Resources over which the Board of Directors had discretionary control.

Temporarily Restricted - Resources subject to donor imposed restrictions which will be satisfied by actions of the Home or passage of time. The Home had temporarily restricted net assets of \$413,136 and \$240,815 at August 31, 2017 and 2016, respectively. See note 7 for further details.

Permanently Restricted - Resources subject to donor imposed restriction that they be maintained permanently by the Home. No such assets existed at August 31, 2017.

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 unrestricted 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 temporarily or permanently restricted support, depending on the nature of the restriction. When a donor restriction expires, that is, when a 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. Restricted grants and contributions whose restrictions are met in the same reporting period as they are received are reported as unrestricted 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 restricted 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% of Smoky Mountain Children's Home revenues.

SMOKY MOUNTAIN CHILDREN'S HOME

Notes to Financial Statements

For the Years Ended August 31, 2017 and 2016

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 temporarily restricted 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, 2017 and 2016. 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. In 2015, the IRS audited the 2013 and 2014 Form 990's, both years were found to be free from error and cleared by the IRS. 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, 2017 and 2016.

Subsequent Events

In preparing these financial statements, the Home has evaluated events and transactions for potential recognition or disclosure through January 31, 2018, the date the financial statements were available to be issued.

Note 2 - 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 year ended August 31, 2017, were as follows:

	August 31	
	2017	2016
Supplies	\$ 67,653	\$ 57,795
Total	\$ 67,653	\$ 57,795

SMOKY MOUNTAIN CHILDREN'S HOME*Notes to Financial Statements**For the Years Ended August 31, 2017 and 2016***Note 3 - PROPERTY AND EQUIPMENT, NET**

The cost and related accumulated depreciation of property and equipment as of August 31, 2017 and 2016, consisted of the following:

	Balance 8/31/2016	Additions & (Deletions)	Balance 8/31/2017
Land and building	\$ 5,633,167	\$ 139,134	\$ 5,772,301
Furniture and equipment	541,340	36,450	577,790
Vehicles	466,472	85	466,557
Widows Ministry Center - Building and equipment	4,743,871	(4,743,871)	0
	\$ 11,384,850	\$ (4,568,202)	\$ 6,816,648
Less: Accumulated Depreciation	(6,143,298)	1,397,149	(4,746,149)
Property and Equipment, net	<u>\$ 5,241,552</u>	<u>\$ (3,171,053)</u>	<u>\$ 2,070,499</u>

As of August 31, 2017, assets recorded under capital leases totaled \$136,225 with related accumulated depreciation of \$25,477.

For the years ended August 31, 2017 and 2016, depreciation expense was \$304,909 and \$362,202, respectively. Of these amounts, depreciation on assets of the discontinued segment for the years ended August 31, 2017 and 2016, was \$44,285 and \$133,383, respectively. Depreciation expense relating to continuing operations for the years ended August 31, 2017 and 2016, was \$260,624 and \$228,819, respectively.

Note 4 - 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, 2017, cash balances exceeded FDIC limits by \$209,141. 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 5 - 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, 2017, consisted of the following:

<u>Investment Description</u>	<u>Level 1</u>
Equity Securities	\$ 450,871
Debt Securities	218,497
Total	<u>\$ 669,368</u>

SMOKY MOUNTAIN CHILDREN'S HOME*Notes to Financial Statements**For the Years Ended August 31, 2017 and 2016***Note 6 - 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, 2017 and 2016.

Employees accrue 4 hours of sick leave with each full month of employment and may accumulate up to 240 hours. Employees are not paid for unused sick leave upon resignation or termination.

Employees accrue 24 hours of personal leave with each full year of employment. Personal leave does not accrue and all unused personal leave at August 31 is lost. Employees are not paid for unused personal leave upon resignation or termination.

Note 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following activities as of August 31:

	2017	2016
Cottage #2	\$ 4,965	\$ 6,786
Cottage #3	3,003	4,607
Cottage #4	273	7,460
Cottage #5	32,796	23,452
Cottage #6	13,128	15,453
Cottage #7	52,582	5,545
Cottage #8	12,322	8,612
Cottage #9	554	(1,607)
Cottage #10	35,637	38,154
Cottage #11	131,865	71,724
Yellow Rose Cottage - Cottage #1	20,511	28,743
Choir and drama	162	162
Sara Bolt Scholarship Fund	505	505
Max Brandt Scholarship Fund	2,657	2,657
Margarette Catha Scholarship Fund	10,116	11,726
Scholarships	429	179
Stan Price Memorial Fund	6,488	6,488
Building Projects	7,206	1,006
Miscellaneous special projects	77,937	69,690
WMC - Special Projects	0	39,058
WMC - Operations	0	(107,059)
WMC - Miller Fund	0	7,474
	<u>\$ 413,136</u>	<u>\$ 240,815</u>

SMOKY MOUNTAIN CHILDREN'S HOME*Notes to Financial Statements**For the Years Ended August 31, 2017 and 2016***Note 8 - 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:

	2017	2016
Cottage #2	\$ 2,921	\$ 14,382
Cottage #3	1,604	3,474
Cottage #4	8,437	14,411
Cottage #5	7,382	22,572
Cottage #6	13,184	14,154
Cottage #7	7,399	4,851
Cottage #8	7,876	14,321
Cottage #9	6,004	16,811
Cottage #10	18,352	21,021
Cottage #11	10,639	23,286
Yellow Rose Cottage - Cottage #1	9,387	8,011
Margarette Catha Scholarship Fund	1,610	33,087
Opal Levenia Springer Project	0	5,655
Miscellaneous special projects	22,603	44,608
Discontinued segment beginning fund deficit	(60,527)	0
WMC - Special Projects	0	19,510
WMC - Operations	0	31,903
WMC - Miller Fund	0	428,647
	<u>\$ 56,871</u>	<u>\$ 720,704</u>

Note 9 - 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, 2017 and 2016, was \$15,829 and \$11,911, respectively.

Note 10 - 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, 2017, 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, 2017. No value has been reported in the accompanying financial statements for the Home's mineral rights.

Note 11 - 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 \$18,000 per employee in 2017. 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, 2017 and 2016

Note 12 - 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, 2017, are as follows:

<u>August 31</u>	<u>Amount</u>
2018	\$ 39,823
2019	39,823
2020	20,536
2021	17,111
2022	<u>2,102</u>
Total future minimum lease payments	\$ 119,395
Less: Interest	<u>15,749</u>
Present value of future minimum capital lease payments	<u>\$ 103,646</u>

Total interest incurred for the year ended August 31, 2017, was \$5,142.

Note 13 - RECLASSIFICATION

Certain 2016 items have been reclassified in order to present more clearly the financial statements at August 31, 2017. The financial statements for the year ended August 31, 2016, have been restated to reflect the assets and results of operations of the segment disposed of during the year ended August 31, 2017. See Note 17.

Note 14 - 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 15 - EXECUTIVE DIRECTOR COMPENSATION

The compensation process for top official directors' wages are set by the Church of God International Offices in Cleveland, Tennessee. The executive director's salary is funded by the Church of God International Offices and paid monthly to the Home.

SMOKY MOUNTAIN CHILDREN'S HOME

Notes to Financial Statements

For the Years Ended August 31, 2017 and 2016

Note 16 - DISCONTINUED OPERATIONS

The Iris B. Vest Widow's Ministry Center was started in 2003 as a dba of Smoky Mountain Children's Home. This has been the case with many other entities that have birthed out of the Children's Home. In each case, the entities were established as separate corporate entities once they were firmly established. Management decided that the Vest Center was sufficiently established and able to separate to create its own entity as had been done with other ministries. An attorney was consulted to establish the best time and manner in which to separate the Vest Center. It was decided that a calendar-year separation would be best due to payroll-related matters. The board of directors was presented with the motion to separate the two entities, and they voted in favor of the action. The attorney assisted in establishing the Iris B. Vest SpiritCare Center as a separate corporate entity in the State of Tennessee. Once all the appropriate documentation was in place, the Vest Center was established on January 1, 2017, as its own corporation.

The Smoky Mountain Children's Home results of operations include the activities of the Widow's Ministry Center through December 31, 2016. The financial position as of August 31, 2016, has been restated to reflect the assets of the discontinued segment, as detailed below.

Reconciliation of the carrying amounts of the major classes of assets of the discontinued operation to the total assets of the segment classified as held for disposal that are presented separately in the Statement of Financial Position as of August 31:

	<u>2017</u>	<u>2016</u>
Carrying amounts of major classes of assets included in discontinued operations:		
Cash and cash equivalents	\$ 0	\$ 96,370
Property and equipment, net	<u>0</u>	<u>3,237,164</u>
Total assets of the segment classified as held for disposal	<u>\$ 0</u>	<u>\$ 3,333,534</u>

The segment carried no liabilities as of August 31, 2017 and 2016.

Reconciliation of the major line items constituting profit (loss) of the discontinued operations to the profit (loss) of the segment classified as held for disposal presented in the Statement of Activities for the years ended August 31:

	<u>2017</u>	<u>2016</u>
Major classes of items constituting income (loss) on discontinued operations:		
Revenue	\$ 95,330	\$ 547,981
Operating expenditures	(185,530)	(428,647)
Depreciation	(44,285)	(133,383)
Other expenditures	<u>(10,693)</u>	<u>(51,413)</u>
Change in net assets of the discontinued operation	\$ (145,178)	\$ (65,462)
Loss on disposal of the discontinued segment	<u>(3,192,879)</u>	<u>0</u>
Total change in net assets from discontinued operations	<u>\$ (3,338,057)</u>	<u>\$ (65,462)</u>

No capital expenditures were made nor were there any significant noncash activities of the segment classified under discontinued operations during the years ended August 31, 2017 and 2016.

SMOKY MOUNTAIN CHILDREN'S HOME

Notes to Financial Statements

For the Years Ended August 31, 2017 and 2016

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	2016 Ending Fund Balance	Revenues	Expenses	Revenues Over (Under) Expenses	2017 Ending Fund Balance
General Fund -					
Unrestricted	\$ 7,321,254	\$ 8,047,377	\$ (8,303,139)	\$ (255,762)	\$ 7,065,492
Cottage #2	6,786	1,100	(2,921)	(1,821)	4,965
Cottage #3	4,607	0	(1,604)	(1,604)	3,003
Cottage #4	7,460	1,250	(8,437)	(7,187)	273
Cottage #5	23,452	16,726	(7,382)	9,344	32,796
Cottage #6	15,453	10,859	(13,184)	(2,325)	13,128
Cottage #7	5,545	54,436	(7,399)	47,037	52,582
Cottage #8	8,612	11,586	(7,876)	3,710	12,322
Cottage #9	(1,607)	8,165	(6,004)	2,161	554
Cottage #10	38,154	15,835	(18,352)	(2,517)	35,637
Cottage #11	71,724	70,780	(10,639)	60,141	131,865
Yellow Rose Cottage -					
Cottage #1	28,743	1,155	(9,387)	(8,232)	20,511
Choir and drama	162	0	0	0	162
Sara Bolt Scholarship Fund	505	0	0	0	505
Max Brandt					
Scholarship Fund	2,657	0	0	0	2,657
Margarette Catha					
Scholarship Fund	11,726	0	(1,610)	(1,610)	10,116
Scholarships	179	250	0	250	429
Stan Price Memorial Fund	6,488	0	0	0	6,488
Building Projects	1,006	6,200	0	6,200	7,206
Miscellaneous					
special projects	69,690	30,850	(22,603)	8,247	77,937
Total funds related to continuing operations	\$ 7,622,596	\$ 8,276,569	\$ (8,420,537)	\$ (143,968)	\$ 7,478,628
Discontinued Segment	(60,527)	95,330	(3,433,387)	(3,338,057)	(3,398,584)
Total	<u>\$ 7,562,069</u>	<u>\$ 8,371,899</u>	<u>\$ (11,853,924)</u>	<u>\$ (3,482,025)</u>	<u>\$ 4,080,044</u>

SMOKY MOUNTAIN CHILDREN'S HOME

Statements of Functional Expenses

For the Year Ended August 31, 2017 (with comparative totals for 2016)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>2017 Total</u>	<u>2016 Total</u>
Salaries	\$ 2,523,249	\$ 567,731	\$ 63,081	\$ 3,154,061	\$ 3,250,541
Health insurance	418,035	94,058	10,451	522,544	483,314
Supplies	226,740	51,017	5,669	283,426	287,422
Telephone, utilities and cable	204,602	46,036	5,115	255,753	241,721
Insurance	85,681	21,420	0	107,101	85,685
Automobile	39,554	8,900	989	49,443	44,076
General Assembly	0	2,101	0	2,101	26,309
Repairs and maintenance	101,635	0	0	101,635	41,612
Landscaping and grounds	36,685	0	0	36,685	38,416
Depreciation	260,624	0	0	260,624	228,819
Professional fees	0	322,330	0	322,330	156,134
Board and committee	0	17,024	0	17,024	13,063
Promotion	0	0	80,382	80,382	71,478
Foster family care	2,968,602	0	0	2,968,602	3,052,327
Special projects	118,241	0	0	118,241	240,644
Miscellaneous	135,432	5,153	0	140,585	137,527
TOTALS	<u>\$ 7,119,081</u>	<u>\$ 1,135,769</u>	<u>\$ 165,687</u>	<u>\$ 8,420,537</u>	<u>\$ 8,399,088</u>