

***SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES***

Financial Statements, Supplementary Information, Compliance Reports  
and Independent Auditors' Report  
For the Years Ended September 30, 2022, and 2021

**Lowdermilk Church & Co., L.L.P.**  
*Certified Public Accountants*

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# SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

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**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Executive Committee and Board of Trustees  
September 30, 2022**

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**Executive Committee**

Rod Willcox, Chairman  
Gerry Knox, Vice Chairman  
Lisa Ayotte, Treasurer  
Susan McCracken, Secretary

**Board of Trustees**

Katrina Blumetti  
Flake Brantley  
Coulter Brinkley  
Ola Mae Caldwell  
Brink Isaacs

Michelle Elliott  
Joe Delk  
Rebecca McLeod  
David Rust  
Gary Stroud

**Trustee Emeritus**

Jack Isaacs, Sr.

**Executive Director**

W. Chris Jernigan

**Lowdermilk Church & Co., L.L.P.**  
*Certified Public Accountants*

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121 North Sterling Street  
Morganton, North Carolina 28655  
Phone: (828) 433-1226  
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**Independent Auditors' Report**

To the Board of Directors of  
Southmountain Children and Family Services

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the accompanying financial statements of Southmountain Children and Family Services (a nonprofit organization), which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Southmountain Children and Family Services as of September 30, 2022 and 2021, 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.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Southmountain Children and Family Services 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 opinions.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 Southmountain Children and Family Services' 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 and *Government 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 and *Government 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 Southmountain Children and Family Services' 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 Southmountain Children and Family Services' 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.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Activities (Non-GAAP) are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal and State awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 audit 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 schedule of activities (Non GAAP) and the schedule of expenditures of federal and State awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2023, on our consideration of Southmountain Children and Family Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Southmountain Children and Family Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southmountain Children and Family Services' internal control over financial reporting and compliance.

*Lawrence C. Camp & Co., P.C.*

Morganton, North Carolina  
February 28, 2023

**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Statements of Financial Position  
September 30, 2022 and 2021**

	<u>Notes</u>	<u>2022</u>		<u>Total</u>
		<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
<b><u>Assets</u></b>				
Current assets:				
Cash and cash equivalents	1	\$ 1,860,849	\$ 56,136	\$1,916,985
Short term equivalents		1,632,977	-	1,632,977
Accounts receivable	1, 2	1,377,905	-	1,377,905
Security deposits		4,900	-	4,900
Prepaid expense		<u>3,236</u>	<u>-</u>	<u>3,236</u>
Total current assets		4,879,866	56,136	4,936,002
Property, plant and equipment:				
Property, plant and equipment - net	1, 3	3,165,638	-	3,165,638
Noncurrent assets:				
Investments	4	<u>305</u>	<u>-</u>	<u>305</u>
Total assets		<u>\$ 8,045,809</u>	<u>\$ 56,136</u>	<u>\$8,101,945</u>
<b><u>Liabilities and Net Assets</u></b>				
Current liabilities:				
Accounts payable		\$ 5,995	\$ -	\$ 5,995
Accrued expenses		963	-	963
Refundable advance		-	49,580	49,580
Note payable - current		<u>44,950</u>	<u>-</u>	<u>44,950</u>
Total current liabilities		51,908	49,580	101,488
Long-term Liabilities:				
Note payable		<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities		<u>51,908</u>	<u>49,580</u>	<u>101,488</u>
Net assets:				
Without donor restrictions		7,993,901	-	7,993,901
With donor restrictions		<u>-</u>	<u>6,556</u>	<u>6,556</u>
Total net assets		<u>7,993,901</u>	<u>6,556</u>	<u>8,000,457</u>
Total liabilities and net assets		<u>\$ 8,045,809</u>	<u>\$ 56,136</u>	<u>\$8,101,945</u>

*See accompanying notes to financial statements.*

2021		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 1,046,768	\$ 262,556	\$1,309,324
1,919,806	-	1,919,806
1,505,071	-	1,505,071
4,100	-	4,100
5,218	-	5,218
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4,480,963	262,556	4,743,519
2,814,903	-	2,814,903
-	-	-
<hr/>	<hr/>	<hr/>
<u>\$ 7,295,866</u>	<u>\$ 262,556</u>	<u>\$7,558,422</u>
\$ 2,676	\$ -	\$ 2,676
600	-	600
-	256,000	256,000
4,522	-	4,522
<hr/>	<hr/>	<hr/>
7,798	256,000	263,798
4,042	-	4,042
<hr/>	<hr/>	<hr/>
11,840	256,000	267,840
7,284,026	-	7,284,026
-	6,556	6,556
<hr/>	<hr/>	<hr/>
7,284,026	6,556	7,290,582
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<u>\$ 7,295,866</u>	<u>\$ 262,556</u>	<u>\$7,558,422</u>



**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Statements of Activities  
For the Years Ended September 30, 2022 and 2021**

	2022		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
<b>Public Support:</b>			
Local funds:			
United Way	\$ 1,938	\$ -	\$ 1,938
Department of Social Services	1,112,433	-	1,112,433
Private insurance	46,522	-	46,522
Religious organizations	11,560	-	11,560
Civic and fraternal organizations	13,356	-	13,356
Trusts, foundations and non-government grants	351,285	-	351,285
Corporations and individuals	137,207	143,000	280,207
Contributed nonfinancial assets	86,169	-	86,169
Special events - net	21,183	-	21,183
Thrift store revenue	750	-	750
Training revenue	-	-	-
<b>Total local funds</b>	<u>1,782,402</u>	<u>143,000</u>	<u>1,925,402</u>
State and federal funds:			
Child Medical Evaluation Program	63,588	-	63,588
Crime Victims Compensation Commission	8,661	-	8,661
Governor's Crime Commission	2,044,037	-	2,044,037
State funds - Children's Advocacy Centers of NC	2,018,004	-	2,018,004
Federal funds - Children's Advocacy Centers of NC	388,025	-	388,025
Medicaid	856,742	-	856,742
Paycheck Protection Program	-	-	-
Title I	38,349	-	38,349
<b>Total state and federal funds</b>	<u>5,417,407</u>	<u>-</u>	<u>5,417,407</u>
Net assets released from restrictions:			
Satisfaction of program transactions	143,000	(143,000)	-
<b>Total public support</b>	<u>7,342,809</u>	<u>-</u>	<u>7,342,809</u>
<b>Expenses:</b>			
Program services	5,867,435	-	5,867,435
Supporting services	970,759	-	970,759
<b>Total expenses</b>	<u>6,838,194</u>	<u>-</u>	<u>6,838,194</u>
<b>Operating income (loss)</b>	<u>504,615</u>	<u>-</u>	<u>504,615</u>

2021		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 7,020	\$ -	\$ 7,020
1,357,794	-	1,357,794
30,800	-	30,800
7,955	-	7,955
6,692	-	6,692
653,269	-	653,269
142,498	-	142,498
-	-	-
10,774	-	10,774
14,418	-	14,418
-	-	-
2,231,220	-	2,231,220
83,205	-	83,205
6,567	-	6,567
2,659,177	-	2,659,177
273,004	-	273,004
753,527	-	753,527
730,019	-	730,019
(245,022)	245,022	-
49,943	-	49,943
4,310,420	245,022	4,555,442
245,022	(245,022)	-
6,786,661	-	6,786,661
5,468,689	-	5,468,689
814,359	-	814,359
6,283,048	-	6,283,048
503,613	-	503,613

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**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

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**Statements of Activities  
For the Years Ended September 30, 2022 and 2021**

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	2022		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
<b>Other Revenues (Expenses):</b>			
Miscellaneous	\$ 20,796	\$ -	\$ 20,796
Rent and lease	33,050	-	33,050
Utility reimbursements	12,960	-	12,960
Gain (loss) on disposal of assets and/or sale of stock	109,397	-	109,397
Unrealized gain (loss) on investments	(31)	-	(31)
Interest and dividend income	<u>29,087</u>	<u>-</u>	<u>29,087</u>
Total other revenues (expenses)	<u>205,258</u>	<u>-</u>	<u>205,258</u>
Change in net assets	709,875	-	709,875
Net assets, beginning of year	<u>7,284,026</u>	<u>6,556</u>	<u>7,290,582</u>
Net assets, end of year	<u>\$ 7,993,901</u>	<u>\$ 6,556</u>	<u>\$ 8,000,457</u>

*See accompanying notes to financial statements.*

2021		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 23,838	\$ -	\$ 23,838
38,773	-	38,773
14,524	-	14,524
9	-	9
-	-	-
<u>24,289</u>	<u>-</u>	<u>24,289</u>
<u>101,431</u>	<u>-</u>	<u>101,431</u>
605,045	-	605,045
<u>6,433,959</u>	<u>6,556</u>	<u>6,440,515</u>
<u>\$ 7,039,004</u>	<u>\$ 6,556</u>	<u>\$ 7,045,560</u>

**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Statements of Functional Expenses  
For the Years Ended September 30, 2022 and 2021**

Expenses:	2022					Supporting Services General and Administration	Total
	Program Services				Total		
	Residential Foster Care	Child Advocacy Center	Evidence Based Therapy	Program Support	Program Services		
Salaries	\$ 855,218	\$ 1,403,983	\$ 1,084,503	\$ 96,538	\$3,440,242	\$ 627,573	\$4,067,815
Payroll taxes and benefits	166,730	272,715	200,453	24,065	663,963	113,245	777,208
<b>Total salaries and related expenses</b>	<b>1,021,948</b>	<b>1,676,698</b>	<b>1,284,956</b>	<b>120,603</b>	<b>4,104,205</b>	<b>740,818</b>	<b>4,845,023</b>
Volunteer services	9,908	50,260	-	-	60,168	-	60,168
Supplies	9,015	72,410	33,302	1,977	116,704	29,248	145,952
Occupancy	159,504	336,063	24,292	59,574	579,433	30,548	609,981
Postage and printing	9	1,858	1,372	-	3,239	1,409	4,648
Insurance and bonding	39,426	27,691	8,986	25,318	101,421	19,900	121,321
Development	-	15,921	-	-	15,921	15,437	31,358
Food services	4,704	15,234	622	-	20,560	8,673	29,233
Staff development	4,995	118,524	12,292	-	135,811	11,525	147,336
Conferences, conventions and meetings	-	585	-	-	585	6,483	7,068
Transportation	35,516	29,930	3,171	-	68,617	23,753	92,370
Dues and subscriptions	230	18,257	615	-	19,102	3,810	22,912
Licenses and accreditations	34,650	-	-	-	34,650	202	34,852
Staff recruiting	27,424	16,429	7,363	48	51,264	1,595	52,859
Professional fees	-	-	-	-	-	22,744	22,744
Equipment purchase/lease/maintenance	2,325	94,882	5,370	-	102,577	20,250	122,827
Client specific expenses	17,856	21,639	885	-	40,380	-	40,380
Contracted services	(12)	65,175	2,613	-	67,776	-	67,776
Billing/credentialing	320	1,553	20,470	-	22,343	-	22,343
Recreation	18,925	-	-	-	18,925	-	18,925
Data processing	6,580	-	31,877	-	38,457	-	38,457
Miscellaneous	922	1,236	1,281	22	3,461	22,127	25,588
<b>Total expenses before depreciation</b>	<b>1,394,245</b>	<b>2,564,345</b>	<b>1,439,467</b>	<b>207,542</b>	<b>5,605,599</b>	<b>958,522</b>	<b>6,564,121</b>
Depreciation	128,384	124,435	5,285	3,732	261,836	12,237	274,073
<b>Total expenses</b>	<b>\$1,522,629</b>	<b>\$2,688,780</b>	<b>\$ 1,444,752</b>	<b>\$ 211,274</b>	<b>\$5,867,435</b>	<b>\$ 970,759</b>	<b>\$6,838,194</b>

See accompanying notes to financial statements.

**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Statements of Functional Expenses  
For the Years Ended September 30, 2022 and 2021**

Expenses:	2021					Supporting	
	Program Services				Total Program Services	Services	
	Residential Foster Care	Child Advocacy Center	Evidence Based Therapy	Program Support		General and Administration	Total
Salaries	\$ 876,180	\$ 1,299,227	\$ 994,076	\$ 143,256	\$3,312,739	\$ 512,805	\$3,825,544
Payroll taxes and benefits	171,098	278,222	204,730	34,629	688,679	112,073	800,752
<b>Total salaries and related expenses</b>	<b>1,047,278</b>	<b>1,577,449</b>	<b>1,198,806</b>	<b>177,885</b>	<b>4,001,418</b>	<b>624,878</b>	<b>4,626,296</b>
Volunteer services	-	-	-	-	-	-	-
Supplies	4,416	55,170	22,790	363	82,739	14,502	97,241
Occupancy	181,960	319,449	35,060	72,532	609,001	24,296	633,297
Postage and printing	55	1,282	819	-	2,156	1,949	4,105
Insurance and bonding	39,158	28,002	9,549	10,506	87,215	12,498	99,713
Development	-	1,920	-	-	1,920	22,131	24,051
Food services	3,617	7,932	1,017	-	12,566	5,557	18,123
Staff development	5,109	33,105	20,752	-	58,966	3,057	62,023
Conferences, conventions and meetings	-	-	122	-	122	4,857	4,979
Transportation	12,392	18,962	3,957	813	36,124	23,672	59,796
Dues and subscriptions	30	11,492	1,849	-	13,371	4,315	17,686
Licenses and accreditations	30,143	6,000	510	-	36,653	202	36,855
Staff recruiting	2,588	4,530	12,485	48	19,651	626	20,277
Professional fees	-	-	-	-	-	22,096	22,096
Equipment purchase/lease/maintenance	14,987	71,434	3,852	1,076	91,349	7,912	99,261
Client specific expenses	14,820	22,314	4,060	-	41,194	-	41,194
Contracted services	-	30,042	-	-	30,042	5,000	35,042
Billing/credentialing	-	19,245	-	-	19,245	-	19,245
Recreation	39,380	-	-	-	39,380	-	39,380
Data processing	5,033	1,959	32,221	-	39,213	120	39,333
Miscellaneous	572	1,990	596	235	3,393	21,297	24,690
<b>Total expenses before depreciation</b>	<b>1,401,538</b>	<b>2,212,277</b>	<b>1,348,445</b>	<b>263,458</b>	<b>5,225,718</b>	<b>798,965</b>	<b>6,024,683</b>
Depreciation	118,466	116,073	-	8,432	242,971	15,394	258,365
<b>Total expenses</b>	<b>\$1,520,004</b>	<b>\$2,328,350</b>	<b>\$1,348,445</b>	<b>\$271,890</b>	<b>\$5,468,689</b>	<b>\$814,359</b>	<b>\$6,283,048</b>

See accompanying notes to financial statements.

**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Statements of Cash Flows  
For the Years Ended September 30, 2022 and 2021**

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Cash Flows From Operating Activities:</b>			
Funds received	\$ 7,222,657	\$ 143,000	\$ 7,365,657
Interest received	29,064	-	29,064
Interest expense	(171)	-	(171)
Operating expenses	(6,510,008)	-	(6,510,008)
Net assets released from restrictions	349,420	(349,420)	-
Net cash provided (used) by operating activities	<u>1,090,962</u>	<u>(206,420)</u>	<u>884,542</u>
<b>Cash Flows From Investing Activities:</b>			
Interest on investments	23	-	23
(Purchases) sales of short-term equivalents	286,829	-	286,829
(Purchases) Proceeds from sale of stocks	24,689	-	24,689
Proceeds from sale of fixed assets	-	-	-
Purchase of fixed assets	(624,808)	-	(624,808)
Net cash provided (used) by investing activities	<u>(313,267)</u>	<u>-</u>	<u>(313,267)</u>
<b>Cash Flows From Financing Activities:</b>			
Proceeds from borrowing/leases	44,950	-	44,950
Payments on long-term debt	(8,564)	-	(8,564)
Net cash provided (used) by financing activities	<u>36,386</u>	<u>-</u>	<u>36,386</u>
Net increase (decrease) in cash and cash equivalents	814,081	(206,420)	607,661
Beginning cash and cash equivalents	<u>1,046,768</u>	<u>262,556</u>	<u>1,309,324</u>
Ending cash and cash equivalents	<u>\$ 1,860,849</u>	<u>\$ 56,136</u>	<u>\$ 1,916,985</u>
<b>Reconciliation of Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:</b>			
Changes in net assets	\$ 709,875	\$ -	\$ 709,875
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation	274,073	-	274,073
Donation of stocks and/or fixed assets	(25,476)	-	(25,476)
Paycheck Protection Plan loan forgiveness	-	-	-
Interest on investments	(23)	-	(23)
(Gain) loss on sale of stocks	452	-	452
Unrealized (gain) loss on investments	31	-	31
(Increase) decrease in operating assets:			
Accounts receivable	127,166	-	127,166
Security deposits	(800)	-	(800)
Prepaid expense	1,982	-	1,982
Increase (decrease) in operating liabilities:			
Accounts payable	3,319	-	3,319
Refundable advance	-	(206,420)	(206,420)
Accrued expenses	363	-	363
Total	<u>381,087</u>	<u>(206,420)</u>	<u>174,667</u>
Net cash provided (used) by operating activities	<u>\$ 1,090,962</u>	<u>\$ (206,420)</u>	<u>\$ 884,542</u>
<b>Schedule of Noncash Investing Activities:</b>			
Net change in unrealized securities available for sale	\$ 31	\$ -	\$ 31
Donation of stocks and/or fixed assets	<u>\$ 25,476</u>	<u>\$ -</u>	<u>\$ 25,476</u>
<i>See accompanying notes to financial statements.</i>			

2021		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 7,228,810	\$ 256,000	\$ 7,484,810
24,279	-	24,279
(1,139)	-	(1,139)
(6,288,659)	-	(6,288,659)
<u>165,022</u>	<u>(165,022)</u>	<u>-</u>
<u>1,128,313</u>	<u>90,978</u>	<u>1,219,291</u>
10	-	10
(893,593)	-	(893,593)
9,865	-	9,865
-	-	-
<u>(40,771)</u>	<u>-</u>	<u>(40,771)</u>
<u>(924,489)</u>	<u>-</u>	<u>(924,489)</u>
<u>(4,273)</u>	<u>-</u>	<u>(4,273)</u>
<u>(4,273)</u>	<u>-</u>	<u>(4,273)</u>
199,551	90,978	290,529
<u>847,217</u>	<u>171,578</u>	<u>1,018,795</u>
<u>\$ 1,046,768</u>	<u>\$ 262,556</u>	<u>\$ 1,309,324</u>
<u>\$ 850,067</u>	<u>\$ -</u>	<u>\$ 850,067</u>
258,365	-	258,365
(9,856)	-	(9,856)
(80,000)	-	(80,000)
(10)	-	(10)
(9)	-	(9)
-	-	-
116,888	-	116,888
350	-	350
(732)	-	(732)
(7,055)	-	(7,055)
-	90,978	90,978
305	-	305
<u>278,246</u>	<u>90,978</u>	<u>369,224</u>
<u>\$ 1,128,313</u>	<u>\$ 90,978</u>	<u>\$ 1,219,291</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 9,856</u>	<u>\$ -</u>	<u>\$ 9,856</u>



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## SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

### Notes to the Financial Statements For the Years Ended September 30, 2022 and 2021

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#### 1. General Information and Summary of Significant Accounting Policies

**Organization** - Southmountain Children and Family Services (the "Organization") provides residential foster care and related services in a one-of-a-kind, private neighborhood setting. The agency offers a continuum of services for abused, neglected, and dependent children who need placement outside his/her own home.

The Organization also operates 10 Children's Advocacy Centers across N.C. which provide specialized services to child victims of abuse, including forensic interview, medical examinations, family advocacy, and evidence-based mental health treatment.

**Basis of Accounting** - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under the accrual basis, revenues are recognized in the accounting period in which they are earned, regardless of when they are actually received. Expenses are recognized in the accounting period in which a liability is incurred, regardless of when the expense is actually paid.

**Basis of Presentation** - The Organization reports in compliance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities: Presentation of Financial Statements. Under these provisions, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization, and changes therein, are classified and reported as follows:

##### **Net Assets Without Donor Restrictions**

Net assets without donor restrictions represent resources whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions, unrestricted contributions, or restricted contributions whose restrictions have expired.

##### **Net Assets With Donor Restrictions**

Net assets with donor restrictions represent resources whose use is limited by donors for the purpose and/or time in which they may be expended and resources that must be maintained in perpetuity. Eventually, net assets with donor restrictions, other than those that must be maintained in perpetuity, are released to net assets without donor restrictions as their time and purpose requirements are met. Net assets with donor restrictions that must be maintained in perpetuity do not get reclassified since, by definition, their restrictions never expire. The income may be unrestricted or restricted, according to the donor's wishes.

**Restricted and Unrestricted Support and Revenue** - Revenues received are recorded as an increase in net assets without donor restrictions, or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions, other than those that must be maintained in perpetuity, are reclassified to net assets without donor restrictions and are reported in the Statement of Activities as net assets released from restrictions.

**Promises to Give** - Unconditional promises to give are recognized as revenues or gains in the period received, and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises become unconditional.

**Investments** - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions or as net assets with donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

**Property, Plant and Equipment** - The Organization capitalizes all expenditures for property, plant, and equipment in excess of \$5,000. The purchase or construction of property, plant and equipment is reported at cost or estimated historical cost; and the cost is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method for financial reporting purposes and for income tax purposes.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property, plant and equipment are sold, or otherwise disposed of, the net asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

The useful lives of property, plant and equipment for purposes of computing depreciation are:

Buildings	40 years
Equipment, furniture, and fixtures	5-10 years
Leasehold improvements	10-15 years

**Accounts Receivable** - Uncollectible accounts are recognized using the direct write-off method. The Organization does not normally incur bad debts.

**Income Taxes** - The Organization is exempt from federal and State income taxes under Internal Revenue Code Section 501(c)(3).

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Advertising** - Advertising costs are charged to operations when incurred. Advertising expense was \$1,500 and \$-0- for the years ended June 30, 2022, and 2021, respectively.

**Credit Risk** - At September 30, 2022 and 2021, the Organization had deposits that exceeded the federal deposit insurance limit by \$3,378,613 and \$1,810,703, respectively.

**Functional Classification of Expenses** - The Organization allocates its expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their nature and expenditure classification. Other expenses that are common to several functions are allocated by statistical means. Fund-raising expenses for the years ended September 30, 2022 and 2021, in the amount of \$1,626 and \$-0-, respectively, are included in general and administration expenses in the accompanying statements of functional expenses.

**2. Accounts Receivable**

Accounts receivable represents funds due from various North Carolina Departments of Social Services, the State of North Carolina, and federal agencies. The accounts receivable are summarized as follows:

	<u>2022</u>	<u>2021</u>
County Departments of Social Services	\$ 62,141	\$ 100,775
State and federal agencies	1,140,742	1,288,351
Other	<u>175,022</u>	<u>115,945</u>
Total	<u>\$ 1,377,905</u>	<u>\$ 1,505,071</u>

**3. Property, Plant and Equipment**

Property, plant, and equipment is summarized as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 157,212	\$ 157,212
Land improvements	92,565	92,565
Buildings	5,521,911	5,184,070
Equipment	841,248	640,000
Vehicles	<u>391,040</u>	<u>305,321</u>
Total	7,003,976	6,379,168
Less accumulated depreciation	<u>(3,838,338)</u>	<u>(3,564,265)</u>
Property, plant and equipment - net	<u>\$ 3,165,638</u>	<u>\$ 2,814,903</u>

Depreciation expense was \$274,073 and \$258,365 for the fiscal years ended September 30, 2022 and 2021, respectively.

**4. Investments**

The following is a summary of the Organization's investments as of September 30, 2022 and 2021:

	<u>2022</u>					
	<u>Cost</u>	<u>Fair Value 9/30/21</u>	<u>Contributed Stock (Net of Sales)</u>	<u>Gross Unrealized Gain (Loss)</u>	<u>Gross Realized Gain (Loss)</u>	<u>Fair Value 9/30/22</u>
Stocks	\$ -	\$ -	\$ (9)	\$ (31)	\$ (452)	\$ 305

  

	<u>2021</u>					
	<u>Cost</u>	<u>Fair Value 9/30/20</u>	<u>Contributed Stock (Net of Sales)</u>	<u>Gross Unrealized Gain (Loss)</u>	<u>Gross Realized Gain (Loss)</u>	<u>Fair Value 9/30/20</u>
Stocks	\$ -	\$ -	\$ (9)	\$ -	\$ 9	\$ -

## 5. Fair Value of Financial Instruments

### Financial Instruments

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

- Cash and cash equivalents: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.
- Investments: The fair values of investments are based on quoted market prices for those or similar investments.

## 6. Fair Value Measurements

Fair Value Measurements - Disclosures related to FASB ASC 820 Fair Value Measurements and Disclosures should result in an increased consistency and comparability in fair value measurements by defining fair value, providing a framework for measuring fair value, and expanding the disclosures related to fair value.

FASB ASC 820 defines fair value as 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. In accordance with the definition, the statement establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level I - Quoted market prices are available in active markets for identical investments as of the reporting date. The type of investments which would generally be included in Level 1 include listed equities and listed derivatives. As required by FASB ASC 820, the Organization, to the extent that it holds such investments, does not adjust the quoted market price for these investments, even in situations where the Organization holds a large position, and a sale could reasonably impact the quoted price.

Level II - Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date but are not the same as those used in Level I. Fair value is determined through the use of models other than valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities, and certain over-the-counter derivatives.

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in the category generally include general and limited partnership interests in corporate private equity and real estate funds, debt funds, hedge funds, distressed debt and non-investment grade residual interests in securitizations, and collateralized debt obligations.

In some cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. Accordingly, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of inputs that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

### Fair Values Measured on a Recurring Basis

Fair values of assets measured on a recurring basis at September 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>
	<u>Fair Value</u>	<u>Fair Value</u>
Investments	\$ 305	\$ -

Fair values for investments are determined by references to quoted market prices and other relevant information generated by market transactions.

### 7. Long-Term Debt

Long-term debt consisted of the following:

	<u>2022</u>	<u>2021</u>
Note payable to bank in monthly installments of \$409, including interest at a rate of 5.67%, with a final payment due in August 2023. The note is secured by a vehicle.	\$ -	\$ 8,564
Lease payable to financing company to finance vehicle. Vehicle purchased in October 2022.	44,950	
Less current installments	<u>(44,950)</u>	<u>(4,522)</u>
Total long term debt	<u>\$ -</u>	<u>\$ 4,042</u>

Interest expense for the years ended September 30, 2022 and 2021 was \$171 and \$370, respectively.

Maturities of long-term debt subsequent to September 30, 2022 are summarized as follows:

<b>Year Ending September 30:</b>	<u>Amount</u>
2023	<u>\$ 44,950</u>

### 8. Paycheck Protection Program Loan

In fiscal year 2020, the Organization was the recipient of loan proceeds in the amount of \$701,229 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("Cares Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes including payroll, benefits, rent and utilities, and to maintain its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The Organization has spent \$456,207 and \$245,022 of the loan, as of September 30, 2021 and 2020, respectively, and the use of those funds have been for the purposes consistent with the PPP.

The Organization has followed FASB ASC 958-605 Government Grant Model, which is founded on the premise that the substance of PPP funds is a government grant delivered in the form of a forgivable loan. The PPP loan proceeds are recognized as income as eligible expenses are incurred. \$165,022 has been recognized as a refundable advance in which those funds will be spent subsequent to September 30, 2020. The Organization will follow the FASB ASC 470 Debt Model for the remaining \$80,000, estimated unforgiven portion as of September 30, 2020, recorded as a note payable which will also accrue interest at 1%.

In the fiscal year 2021, the Paycheck Protection Program loan was forgiven in full in the amount of \$701,229.

**9. Contributed Nonfinancial Assets**

For the years ended September 30, contributed nonfinancial assets recognized within the statement of activities included:

	<u>2022</u>	<u>2021</u>
Services	\$ 60,693	\$ -
Stock	25,476	9,856
	<u>\$ 86,169</u>	<u>\$ 9,856</u>

The Organization recognized contributed nonfinancial assets within revenue, including contributed services and stock. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed services recognized comprise labor from individuals within and around the community to assist with providing educational and recreational activities to the foster care community and administrative assistance to the children’s advocacy centers. In addition, marketing services were provided to assist the Organization with the Organization’s website. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar services in North Carolina.

Contributed stock is utilized to assist the Organization in fulfilling its purpose. Contributed stock is valued at the fair market value at the time of contribution.

**10. Compensated Absences**

Employees of the Organization are entitled to paid time off, depending on job classification, length of service and other factors. It is not practical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Organization’s policy is to recognize the costs of compensated absences when actually paid to employees.

**11. Restrictions on Net Assets**

Net assets with donor restrictions are available for the following purposes:

	<u>2022</u>	<u>2021</u>
Playground equipment for McDowell CAC	\$ 2,000	\$ 2,000
Cash restricted for training purposes	<u>4,556</u>	<u>4,556</u>
Total net assets with donor restrictions	<u>\$ 6,556</u>	<u>\$ 6,556</u>

**12. Tax Sheltered Annuity**

The Organization offers a tax-sheltered annuity to its employees. The Organization will make a discretionary matching contribution, up to 6%, for each employee who participates in the plan. Any employee is eligible as of employment date and is 100% vested after three years of employment. Withdrawal can be made without penalty upon reaching 59½ years of age.

**13. Leases**

**Lessor of Property**

The Organization is the lessor of certain real property located in Burke County, North Carolina for pastureland purposes and apartment rentals. The Organization has agreed to give the current lessee first option to renew the lease if the Organization decides to continue leasing the property.

The Organization also subleases certain real property for business purposes as operating leases, which expired April 2021, with an option to renew for two at a minimum 10% rate increase.

The Organization received \$33,050 and \$38,773 annual rental income in 2022 and 2021, respectively.

**Operating Leases**

The Organization leases buildings under operating leases which expire through 2025.

Minimum future rental payments under the operating leases as of September 30, 2022, are as follows:

<b>Year Ended:</b>	<u>Amount</u>
2023	\$ 96,000
2024	96,000
2025	<u>27,600</u>
Total minimum future rental payments	<u>\$ 219,600</u>

Rental expense under all operating leases was \$175,850 and \$176,740 for the years ended September 30, 2022, and 2021, respectively.



**14. Children's Advocacy Centers (CAC)**

During the fiscal year 1998, Southmountain Children and Family Services established, and continues to operate, a Children's Advocacy Center in Morganton, North Carolina. During the fiscal year 2009, a Children's Advocacy Center was established in Marion, North Carolina. During the fiscal year 2010, the Children's Advocacy Center of the Blue Ridge was established to serve Watauga and Avery counties. During the fiscal year 2013, Southmountain assumed operation of the CAC of Yancey County and expanded services to Mitchell County as the Children's Advocacy Center of the Toe River.

During the fiscal year 2019, the Organization expanded this service further west by establishing a CAC in Transylvania County and to the eastern part of the state by establishing new CACs in Moore and Harnett Counties, as well as a CAC in Nash County which serves Nash, Edgecombe, and Wilson Counties. In 2020, the Organization expanded further by opening a CAC in Carteret County and a CAC in Craven County, which also serves Pamlico County.

The purpose of the CAC's is to provide an efficient means of conducting forensic interviews and medical evaluations in alleged child abuse cases in a non-threatening, child-friendly environment. The CAC's also provide Trauma-Focused Cognitive Behavioral Therapy (TF-CBT) for treatment of childhood trauma and traumatic grief.

**15. Investment In Community Foundation**

In 2007, a permanent endowment was created through the Community Foundation of Burke County with a donor contribution of \$12,000. Additional donor contributions to the foundation during the year were made in the amount of \$-0-. Southmountain Children and Family Services will benefit from the income from this endowment in perpetuity. The endowment was valued at \$12,618 and \$16,349 for the years ended September 30, 2022 and 2021, respectively.

**16. Liquidity and Availability of Resources**

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Organization has the following financial assets that could readily be made available within one year of the balance sheet date to fund expenses without limitations:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,916,985	\$ 1,309,324
Short-term equivalents	1,632,977	1,919,806
Accounts receivable	<u>1,377,905</u>	<u>1,505,071</u>
	4,927,867	4,734,201
Less those unavailable for general expenditure within one year, due to:		
Refundable advance	49,580	256,000
Donor restrictions as to time or purpose	<u>6,556</u>	<u>6,556</u>
	<u>\$ 4,871,731</u>	<u>\$ 4,471,645</u>

## **17. Summary Disclosure of Significant Contingencies**

### **Federal and State Assisted Programs**

The Organization has received proceeds from several federal and State grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

## **18. Uncertainty in Income Taxes**

FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, clarifies the accounting for uncertainty in income tax positions. Based on an evaluation of uncertain tax positions, management is required to measure potential tax liabilities that could have a risk of greater than a 50% likelihood of being realized upon settlement. As of September 30, 2022, management has determined that the Organization has no such risk and, therefore, no liabilities have been recorded for uncertain tax positions.

### **Risk Management**

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Organization carries commercial risk liability coverage with a \$3,000,000 general aggregate limit and \$1,000,000 each occurrence limit. In addition to these, the Organization also carries Directors and Officers liability coverage in the amount of \$1,000,000 maximum for each claim.

## **19. Refundable Advances**

Southmountain Children and Family Services is the recipient of conditional grants that are subject to specific conditions being met. These grants are paid in advance of incurring expenses or meeting conditions. In those cases, the grant amount received in excess of amounts spent is reported as a refundable advance. At September 30, 2022 and 2021, the Organization had \$49,580 and \$256,000, respectively, in refundable advances.

## **20. Recently Issued Accounting Standards**

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07 Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The Organization adopted the requirements of the new standard effective July 1, 2021. The Organization has adjusted the presentation of its financial statements, accordingly, applying the changes retrospectively to the comparative period presented. There was no impact to the beginning net assets. See Note #1 for details of this new standard.

## **21. Subsequent Events**

Management has evaluated subsequent events through February 28, 2023, the date on which the financial statements were available to be issued, and concluded that the following subsequent event has occurred that would require recognition or disclosure in these financial statements:

## **COVID-19 Pandemic**

The spread of the Coronavirus Disease (COVID-19) has been deemed a worldwide pandemic. The COVID-19 pandemic has had significant effects on global economic markets, supply chains, businesses, and communities. Any fluctuations impacting Southmountain Children and Family Services are not reflected in the financial statements for the year ended September 30, 2022, since the full impact of COVID-19 is unknown and cannot be reasonably estimated as of February 28, 2023.

## **22. Contingent Liabilities**

A lawsuit has been filed against Southmountain Children and Family Services. The Organization has denied the substantive allegations against it and intends to vigorously defend against the plaintiffs' claims. No liability has been recognized in these financial statements due to the uncertainty of the resolution of this matter at this time.

## SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

### Schedules of Activities - (Non-GAAP) For the Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Public Support:</b>		
Local funds	\$ 1,925,402	\$ 2,231,220
Federal funds	3,399,403	4,527,459
State funds	2,018,004	273,004
Other revenue	<u>205,258</u>	<u>101,431</u>
 Total public support and other revenue	 <u>7,548,067</u>	 <u>7,133,114</u>
 <b>Expenses:</b>		
Salaries	4,067,815	3,825,544
Payroll taxes and benefits	777,208	800,752
Volunteer services	60,168	-
Licensure and accreditation	34,852	36,855
Contracted services	67,776	35,042
Supplies	145,952	97,241
Occupancy	609,981	633,297
Postage and printing	4,648	4,105
Insurance and bonding	121,321	99,713
Food services	29,233	18,123
Staff development	147,336	62,023
Conferences, conventions and meetings	7,068	4,979
Transportation	92,370	59,796
Dues and subscriptions	22,912	17,686
Staff recruiting	52,859	20,277
Professional fees	22,744	22,096
Equipment purchase/lease/maintenance	122,827	99,261
Client Specific Expenses	40,380	41,194
Development	31,358	24,051
Recreation	18,925	39,380
Data processing	38,457	39,333
Billing/Credentialing	22,343	19,245
Miscellaneous	25,588	24,690
Capital expenses	624,808	40,771
Total expenses	<u>7,188,929</u>	<u>6,065,454</u>
 Change in net assets	 359,138	 1,067,660
 <b>Reconciliation From Modified to Full Accrual Basis:</b>		
Add: Capital expenses	624,808	40,771
Less: Depreciation	<u>(274,073)</u>	<u>(258,365)</u>
 Change in net assets	 <u>\$ 709,875</u>	 <u>\$ 850,067</u>