

***SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES***

Financial Statements, Supplementary Information, Compliance Report  
and Independent Auditors' Report  
For the Years Ended September 30, 2019 and 2018

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

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# SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

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## Table of Contents

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Executive Committee and Board of Trustees

	<u>Page(s)</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to the Financial Statements	9-17
Supplemental Schedule:	
Schedules of Activities - (Non-GAAP)	18
Compliance Section:	
Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <u>Government Auditing Standards</u>	19-20
Independent Auditors' Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance Required By The Uniform Guidance And The State Single Audit Implementation Act	21-22
Schedule of Findings and Responses	23-24
Corrective Action Plan	25
Schedule of Expenditures of Federal and State Awards	26

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**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Executive Committee and Board of Trustees**  
**September 30, 2019**

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**Executive Committee**

Rod Willcox, Chairman  
Gerry Knox, Vice Chairman  
Lisa Buff, Treasurer  
Joseph Delk, Secretary  
Jack (Brink) Isaacs  
David Rust  
Susan McCracken

**Board of Trustees**

Flake Brantley  
Coulter Brinkley  
Ola Mae Caldwell  
Frank Dean  
Josh Dobson  
Michelle Elliott

Bob Hunter  
Tom Johnson  
Ron Lackey  
Dale Winn  
Jack Isaacs, Emeritus

**Executive Director**

W. Chris Jernigan

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

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121 N. 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 Financial Statements**

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, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. 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. 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 the 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 Southmountain Children and Family Services as of September 30, 2019 and 2018, 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.

## Other Matters

### *Supplementary and Other 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 is not a required part of the financial statements. The accompanying schedule of expenditures of federal and State awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principle, and Audit Requirements for Federal Awards* and Audits of States, Local Governments, and Non-Profit Organizations, and is also 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 information 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 March 17, 2020, 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 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.

*Lowenstein Chopin & Co., L.L.P.*

Morganton, North Carolina  
March 17, 2020

**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Statements of Financial Position  
September 30, 2019 and 2018**

	Notes	2019		Total
		Without Donor Restrictions	With Donor Restrictions	
<b><u>Assets</u></b>				
Current assets:				
Cash and cash equivalents	1	\$ 953,017	\$ 48,679	\$1,001,696
Short term equivalents		212,980	-	212,980
Accounts receivable	1, 2	1,208,866	-	1,208,866
Security deposits		6,450	-	6,450
Prepaid expense		24,812	-	24,812
Total current assets		2,406,125	48,679	2,454,804
Property, plant and equipment:				
Property, plant and equipment - net	1, 3	3,035,210	-	3,035,210
Noncurrent assets:				
Investments	4	77,641	-	77,641
Total assets		<u>\$ 5,518,977</u>	<u>\$ 48,679</u>	<u>\$5,567,656</u>
<b><u>Liabilities and Net Assets</u></b>				
Current liabilities:				
Accounts payable		\$ 6,756	\$ -	\$ 6,756
Accrued expenses		54,937	-	54,937
Note payable - current		4,038	-	4,038
Total current liabilities		65,731	-	65,731
Long-term Liabilities:				
Note payable		12,837	-	12,837
Total liabilities		78,568	-	78,568
Net assets:				
Without donor restrictions		5,440,409	-	5,440,409
With donor restrictions		-	48,679	48,679
Total net assets		5,440,409	48,679	5,489,088
Total liabilities and net assets		<u>\$ 5,518,977</u>	<u>\$ 48,679</u>	<u>\$5,567,656</u>

*See accompanying notes to financial statements.*

2018		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 1,740,278	\$ 4,556	\$1,744,834
106,017	-	106,017
789,453	-	789,453
5,750	-	5,750
3,300	-	3,300
<u>2,644,798</u>	<u>4,556</u>	<u>2,649,354</u>
2,214,291	-	2,214,291
<u>125,462</u>	<u>-</u>	<u>125,462</u>
<u>\$ 4,984,550</u>	<u>\$ 4,556</u>	<u>\$4,989,106</u>
\$ 12,963	\$ -	\$ 12,963
84,161	-	84,161
3,606	-	3,606
<u>100,730</u>	<u>-</u>	<u>100,730</u>
17,085	-	17,085
<u>117,815</u>	<u>-</u>	<u>117,815</u>
4,866,735	-	4,866,735
-	4,556	4,556
<u>4,866,735</u>	<u>4,556</u>	<u>4,871,291</u>
<u>\$ 4,984,550</u>	<u>\$ 4,556</u>	<u>\$4,989,106</u>

**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Statements of Activities  
For the Years Ended September 30, 2019 and 2018**

	2019		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
<b>Public Support:</b>			
Local funds:			
United Way	\$ 4,919	\$ -	\$ 4,919
Department of Social Services	1,767,053	-	1,767,053
Private insurance	29,941	-	29,941
Religious organizations	9,941	-	9,941
Civic and fraternal organizations	3,562	-	3,562
Trusts, foundations and non-government grants	354,868	149,180	504,048
Corporations and individuals	318,309	-	318,309
Special events - net	8,079	-	8,079
Thrift store revenue	12,010	-	12,010
Training revenue	-	-	-
Total local funds	<u>2,508,682</u>	<u>149,180</u>	<u>2,657,862</u>
State and federal funds:			
Child Medical Evaluation Program	39,117	-	39,117
Crime Victims Compensation Commission	(528)	-	(528)
Governor's Crime Commission	1,740,663	-	1,740,663
State funds - Children's Advocacy Centers of NC	268,722	-	268,722
National Children's Alliance	31,964	-	31,964
Medicaid	505,419	-	505,419
Title I	44,625	-	44,625
Total state and federal funds	<u>2,629,983</u>	<u>-</u>	<u>2,629,983</u>
Net assets released from restrictions:			
Satisfaction of program transactions	105,057	(105,057)	-
Total public support	<u>5,243,722</u>	<u>44,123</u>	<u>5,287,845</u>
<b>Expenses:</b>			
Program services	4,312,519	-	4,312,519
Supporting services	698,774	-	698,774
Total expenses	<u>5,011,293</u>	<u>-</u>	<u>5,011,293</u>
Operating income (loss)	<u>232,429</u>	<u>44,123</u>	<u>276,552</u>



2018		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 4,830	\$ -	\$ 4,830
2,440,047	-	2,440,047
30,739	-	30,739
9,668	-	9,668
4,464	-	4,464
101,335	-	101,335
142,083	-	142,083
13,746	-	13,746
11,666	-	11,666
6,036	-	6,036
<u>2,764,615</u>	<u>-</u>	<u>2,764,615</u>
26,847	-	26,847
2,241	-	2,241
789,149	-	789,149
221,153	-	221,153
30,958	-	30,958
549,908	-	549,908
39,572	-	39,572
<u>1,659,828</u>	<u>-</u>	<u>1,659,828</u>
-	-	-
<u>4,424,443</u>	<u>-</u>	<u>4,424,443</u>
3,585,147	-	3,585,147
702,508	-	702,508
<u>4,287,655</u>	<u>-</u>	<u>4,287,655</u>
<u>136,788</u>	<u>-</u>	<u>136,788</u>

cont.

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**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

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**Statements of Activities  
For the Years Ended September 30, 2019 and 2018**

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	2019		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
<b>Other Revenues (Expenses):</b>			
Miscellaneous	\$ 14,008	\$ -	\$ 14,008
Rent and lease	37,546	-	37,546
Utility reimbursements	18,895	-	18,895
Gain (loss) on disposal of assets and/or sale of stock	246,189	-	246,189
Unrealized gain (loss) on investments	1,143	-	1,143
Interest and dividend income	<u>23,464</u>	<u>-</u>	<u>23,464</u>
Total other revenues (expenses)	<u>341,245</u>	<u>-</u>	<u>341,245</u>
Change in net assets	573,674	44,123	617,797
Net assets, beginning of year	<u>4,866,735</u>	<u>4,556</u>	<u>4,871,291</u>
Net assets, end of year	<u>\$ 5,440,409</u>	<u>\$ 48,679</u>	<u>\$ 5,489,088</u>

*See accompanying notes to financial statements.*

2018		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 11,605	\$ -	\$ 11,605
50,039	-	50,039
26,743	-	26,743
(1,750)	-	(1,750)
16,418	-	16,418
<u>23,244</u>	<u>-</u>	<u>23,244</u>
<u>126,299</u>	<u>-</u>	<u>126,299</u>
263,087	-	263,087
<u>4,603,648</u>	<u>4,556</u>	<u>4,608,204</u>
<u>\$ 4,866,735</u>	<u>\$ 4,556</u>	<u>\$ 4,871,291</u>

**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Statements of Functional Expenses  
For the Years Ended September 30, 2019 and 2018**

Expenses:	2019					Supporting Services General and Administration	Total
	Program Services				Total		
	Residential Foster Care	Child Advocacy Center	Evidence Based Therapy	Program Support	Program Services		
Salaries	\$ 953,304	\$ 992,365	\$ 437,204	\$ 112,723	\$2,495,596	\$ 442,000	\$2,937,596
Payroll taxes and benefits	224,657	230,231	101,883	27,890	584,661	105,587	690,248
Total salaries and related expenses	1,177,961	1,222,596	539,087	140,613	3,080,257	547,587	3,627,844
Supplies	7,532	53,719	3,571	346	65,168	6,314	71,482
Occupancy	165,808	286,979	10,100	70,778	533,665	31,387	565,052
Postage and printing	88	718	35	-	841	2,742	3,583
Insurance and bonding	18,544	10,961	6,552	13,328	49,385	5,231	54,616
Development	-	4,684	-	-	4,684	3,718	8,402
Food services	10,092	14,978	1,441	-	26,511	9,506	36,017
Staff development	16,935	64,909	6,176	-	88,020	10,047	98,067
Transportation	19,891	23,538	6,898	-	50,327	27,548	77,875
Dues and subscriptions	5,365	5,140	355	-	10,860	4,334	15,194
Licenses and accreditations	8,000	120	-	-	8,120	602	8,722
Staff recruiting	2,347	17,342	191	141	20,021	-	20,021
Professional fees	-	-	-	-	-	14,439	14,439
Equipment purchase/lease/maintenance	11,901	11,475	531	-	23,907	3,713	27,620
Client specific expenses	17,699	9,883	2,929	-	30,511	-	30,511
Contracted services	26,335	7,625	9,953	-	43,913	-	43,913
Recreation	35,632	-	-	-	35,632	-	35,632
Data processing	4,927	3,573	59,792	-	68,292	420	68,712
Miscellaneous	1,728	4,223	374	-	6,325	18,715	25,040
Total expenses before depreciation	1,530,785	1,742,463	647,985	225,206	4,146,439	686,303	4,832,742
Depreciation	113,380	39,426	-	13,274	166,080	12,471	178,551
Total expenses	<u>\$1,644,165</u>	<u>\$1,781,889</u>	<u>\$ 647,985</u>	<u>\$ 238,480</u>	<u>\$4,312,519</u>	<u>\$ 698,774</u>	<u>\$5,011,293</u>

See accompanying notes to financial statements.

**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Statements of Functional Expenses  
For the Years Ended September 30, 2019 and 2018**

Expenses:	2018						Total
	Program Services				Supporting Services		
	Residential Foster Care	Child Advocacy Center	Evidence Based Therapy	Program Support	Total Program Services	General and Administration	
Salaries	\$1,079,606	\$ 528,473	\$ 461,950	\$ 107,184	\$2,177,213	\$ 456,376	\$2,633,589
Payroll taxes and benefits	248,632	118,055	115,434	35,765	517,886	104,183	622,069
Total salaries and related expenses	1,328,238	646,528	577,384	142,949	2,695,099	560,559	3,255,658
Supplies	3,168	16,263	5,270	688	25,389	5,584	30,973
Occupancy	118,030	136,574	21,205	86,126	361,935	41,235	403,170
Postage and printing	3	405	10	-	418	1,333	1,751
Insurance and bonding	17,401	6,458	3,793	13,551	41,203	10,810	52,013
Development	-	14,619	-	-	14,619	2,888	17,507
Food services	13,350	6,395	691	-	20,436	6,643	27,079
Staff development	17,605	37,966	8,289	-	63,860	14,101	77,961
Transportation	16,199	15,448	12,016	-	43,663	23,660	67,323
Dues and subscriptions	860	6,044	400	-	7,304	6,263	13,567
Licenses and accreditations	-	6,000	-	-	6,000	200	6,200
Staff recruiting	879	212	115	-	1,206	75	1,281
Professional fees	-	-	-	-	-	13,004	13,004
Equipment purchase/lease/maintenance	3,416	5,013	3,697	-	12,126	1,399	13,525
Client specific expenses	19,507	9,541	-	-	29,048	-	29,048
Contracted services	40,070	8,309	9,460	-	57,839	-	57,839
Recreation	33,924	-	-	-	33,924	-	33,924
Data processing	4,235	2,456	14,325	-	21,016	372	21,388
Miscellaneous	6,493	1,624	244	-	8,361	11,089	19,450
Total expenses before depreciation	1,623,378	919,855	656,899	243,314	3,443,446	699,215	4,142,661
Depreciation	116,847	11,789	-	13,065	141,701	3,293	144,994
Total expenses	<u>\$1,740,225</u>	<u>\$ 931,644</u>	<u>\$ 656,899</u>	<u>\$ 256,379</u>	<u>\$3,585,147</u>	<u>\$ 702,508</u>	<u>\$4,287,655</u>

See accompanying notes to financial statements.

# SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

## Statements of Cash Flows For the Years Ended September 30, 2019 and 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Cash Flows From Operating Activities:</b>			
Funds received	\$ 4,562,314	\$ 149,180	\$ 4,711,494
Interest received	20,280	-	20,280
Interest expense	(1,094)	-	(1,094)
Operating expenses	(4,888,590)	-	(4,888,590)
Net assets released from restrictions	105,057	(105,057)	-
Net cash provided (used) by operating activities	<u>(202,033)</u>	<u>44,123</u>	<u>(157,910)</u>
<b>Cash Flows From Investing Activities:</b>			
Interest on investments	3,184	-	3,184
(Purchases) sales of short-term investments	(109,831)	-	(109,831)
(Purchases) Proceeds from sale of stocks	75,705	-	75,705
Proceeds from sale of fixed assets	249,000	-	249,000
Purchase of fixed assets	(799,470)	-	(799,470)
Net cash provided (used) by investing activities	<u>(581,412)</u>	<u>-</u>	<u>(581,412)</u>
<b>Cash Flows From Financing Activities:</b>			
Proceeds from borrowing	-	-	-
Payments on long-term debt	(3,816)	-	(3,816)
Net cash provided (used) by financing activities	<u>(3,816)</u>	<u>-</u>	<u>(3,816)</u>
Net increase (decrease) in cash and cash equivalents	(787,261)	44,123	(743,138)
Beginning cash and cash equivalents	1,740,278	4,556	1,744,834
Ending cash and cash equivalents	<u>\$ 953,017</u>	<u>\$ 48,679</u>	<u>\$ 1,001,696</u>
<b>Reconciliation of Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:</b>			
Changes in net assets	\$ 573,674	\$ 44,123	\$ 617,797
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation	178,551	-	178,551
Donation of stocks and/or fixed assets	(226,686)	-	(226,686)
(Gain) loss on disposal of assets	(246,189)	-	(246,189)
Interest on investments	(3,184)	-	(3,184)
Unrealized (gain) loss on investments	(1,143)	-	(1,143)
(Increase) decrease in operating assets:			
Accounts receivable	(419,413)	-	(419,413)
Security deposits	(700)	-	(700)
Prepaid expense	(21,512)	-	(21,512)
Increase (decrease) in operating liabilities:			
Accounts payable	(6,207)	-	(6,207)
Accrued expenses	(29,224)	-	(29,224)
Total	<u>(775,707)</u>	<u>-</u>	<u>(775,707)</u>
Net cash provided (used) by operating activities	<u>\$ (202,033)</u>	<u>\$ 44,123</u>	<u>\$ (157,910)</u>
<b>Schedule of Noncash Investing Activities:</b>			
Net change in unrealized securities available for sale	\$ (1,143)	\$ -	\$ (1,143)
Donation of stocks and/or fixed assets	<u>\$ 226,686</u>	<u>\$ -</u>	<u>\$ 226,686</u>

See accompanying notes to financial statements.

2018		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 4,176,692	\$ -	\$ 4,176,692
20,748	-	20,748
(972)	-	(972)
(4,166,531)	(267)	(4,166,798)
-	-	-
<u>29,937</u>	<u>(267)</u>	<u>29,670</u>
2,496	-	2,496
(1,061)	-	(1,061)
1,977	-	1,977
500	-	500
(47,208)	-	(47,208)
<u>(43,296)</u>	<u>-</u>	<u>(43,296)</u>
-	-	-
(3,938)	-	(3,938)
<u>(3,938)</u>	<u>-</u>	<u>(3,938)</u>
(17,297)	(267)	(17,564)
<u>1,757,575</u>	<u>4,823</u>	<u>1,762,398</u>
<u>\$ 1,740,278</u>	<u>\$ 4,556</u>	<u>\$ 1,744,834</u>
\$ 263,087	\$ (267)	\$ 262,820
144,994	-	144,994
(76,045)	-	(76,045)
1,750	-	(1,750)
(2,496)	-	(2,496)
(16,418)	-	(16,418)
(256,294)	-	(256,294)
(3,800)	-	(3,800)
(2,925)	-	(2,925)
(5,926)	-	(5,926)
(15,990)	-	(15,990)
(233,150)	-	(236,650)
<u>\$ 29,937</u>	<u>\$ (267)</u>	<u>\$ 26,170</u>
<u>\$ 16,418</u>	<u>\$ -</u>	<u>\$ 16,418</u>
<u>\$ 76,045</u>	<u>\$ -</u>	<u>\$ 76,045</u>

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# SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

## Notes to the Financial Statements For the Years Ended September 30, 2019 and 2018

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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 provides evidence based services for child abuse victims and their families.

**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 \$1,000. 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.

**Credit Risk** - At September 30, 2019 and 2018, the Organization had deposits that exceeded the federal deposit insurance limit by \$1,041,949 and \$1,615,556, respectively.

**Reclassification of Comparative Financial Statements** - Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

**Functional Classification of Expenses** - The Organization allocates its expenses on a functional basis among its program 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, 2019 and 2018, in the amount of \$998 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>2019</u>	<u>2018</u>
County Departments of Social Services	\$ 134,723	\$180,412
State and federal agencies	1,048,786	484,594
Other	<u>25,356</u>	<u>124,447</u>
Total	<u>\$1,208,865</u>	<u>\$789,453</u>

**3. Property, Plant and Equipment**

Property, plant and equipment is summarized as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 157,212	\$ 95,712
Land improvements	92,565	92,565
Buildings	5,181,841	4,533,699
Equipment	486,108	355,883
Vehicles	<u>193,325</u>	<u>33,722</u>
Total	6,111,052	5,111,581
Less accumulated depreciation	<u>(3,075,842)</u>	<u>(2,897,290)</u>
Property, plant and equipment - net	<u>\$3,035,210</u>	<u>\$2,214,291</u>

Depreciation expense was \$178,551 and \$144,994 for the fiscal years ended September 30, 2019 and 2018, respectively.

**4. Investments**

The following is a summary of the Organization's investments as of September 30, 2019 and 2018:

	<u>2019</u>					
	<u>Cost</u>	<u>Fair Value 9/30/18</u>	<u>Contributed Stock (Net of Sales)</u>	<u>Gross Unrealized Gain (Loss)</u>	<u>Gross Realized Gain (Loss)</u>	<u>Fair Value 9/30/19</u>
Stocks	<u>\$52,331</u>	<u>\$125,462</u>	<u>\$ (46,154)</u>	<u>\$ 1,143</u>	<u>\$ (2,811)</u>	<u>\$ 77,641</u>

  

	<u>2018</u>					
	<u>Cost</u>	<u>Fair Value 9/30/17</u>	<u>Contributed Stock (Net of Sales)</u>	<u>Gross Unrealized Gain (Loss)</u>	<u>Gross Realized Gain (Loss)</u>	<u>Fair Value 9/30/18</u>
Stocks	<u>\$101,350</u>	<u>\$34,975</u>	<u>\$ 74,068</u>	<u>\$16,418</u>	<u>\$ -</u>	<u>\$125,462</u>

## 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 I 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, 2019 and 2018 are as follows:

	2019		2018	
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)
Investments	<u>\$ 77,641</u>	<u>\$ 77,641</u>	<u>\$125,462</u>	<u>\$125,462</u>

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>2019</u>	<u>2018</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.	\$16,875	\$20,691
Less current installments	<u>(4,038)</u>	<u>(3,606)</u>
Total long-term debt	<u>\$12,837</u>	<u>\$17,085</u>

Interest expense for the years ended September 30, 2019 and 2018 was \$1,094 and \$972, respectively.

Maturities of long-term debt subsequent to September 30, 2019 are summarized as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2020	\$ 4,038
2021	4,273
2022	4,522
2023	<u>4,042</u>
Total	<u>\$ 16,875</u>

## 8. Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services, immaterial equipment or materials in as much as no objective basis is available to measure the value of such items.

**9. 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.

**10. Restrictions on Net Assets**

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

	<u>2019</u>	<u>2018</u>
Medical equipment for Transylvania County CAC	\$ 3,998	\$ -
Bathroom renovations at Foster Community	40,125	-
Cash restricted for training purposes	<u>4,556</u>	<u>4,556</u>
Total net assets with donor restrictions	<u>\$ 48,679</u>	<u>\$ 4,556</u>

**11. 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.

**12. Leases**

**Lessor of Property**

The Organization is the lessor of certain real property located in Burke County, North Carolina for pasture land 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 to tenants for business purposes under operating leases which expire through 2019. One of the leases has an option to renew for three years at a minimum 10% rate increase.

The Organization received \$37,546 and \$50,039 annual rental income in 2019 and 2018, respectively.

## Operating Leases

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

Minimum future rental payments under the operating leases as of September 30, 2019 are as follows:

<u>Year Ended</u>	<u>Amount</u>
2020	\$120,532
2021	111,229
2022	58,358
2023	34,400
2024	34,400
Thereafter	<u>9,600</u>
Total minimum future rental payments	<u>\$368,519</u>

Rental expense under all operating leases was \$118,450 and \$55,800 for the years ended September 30, 2019 and 2018, respectively.

### 13. Children's Advocacy Centers (CAC)

During fiscal year 1998, Southmountain Children and Family Services established, and continues to operate, a Children's Advocacy Center in Morganton, North Carolina. During fiscal year 2009, a Children's Advocacy Center was established in Marion, North Carolina. During fiscal year 2010, the Children's Advocacy Center of the Blue Ridge was established to serve Watauga and Avery counties. During 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. 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 evidence-based clinical treatment to child victims and their families.

During fiscal year 2019, the Organization expanded this service to establish three new CACs in Transylvania, Moore, and Harnett Counties, as well as one CAC in Nash County to provide services to Nash, Edgecombe, and Wilson Counties.

### 14. 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 \$13,548 for the year ended September 30, 2019.

### 15. Recently Issued Accounting Standards

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standard changes the following aspects of the Organization's financial statements:

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

The changes have the following effect on net assets at September 30, 2018:

	<b>As</b>	<b>After</b>
	<b><u>Originally</u></b>	<b><u>Adoption of</u></b>
	<b><u>Presented</u></b>	<b><u>ASU 2016</u></b>
Net assets:		
Unrestricted	\$4,866,735	\$ -
Temporarily restricted	4,556	-
Without donor restrictions	-	4,866,735
With donor restrictions	-	4,556
	<u>\$4,871,291</u>	<u>\$4,871,291</u>

## 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:

	<b><u>2019</u></b>	<b><u>2018</u></b>
Cash and cash equivalents	\$1,001,696	\$1,744,834
Short term equivalents	212,980	106,017
Accounts receivable	<u>1,208,866</u>	<u>789,453</u>
	2,423,542	2,640,304
Less those unavailable for general expenditure within one year, due to:		
Donor restrictions as to time or purpose	<u>48,679</u>	<u>4,556</u>
	<u>\$2,374,863</u>	<u>\$2,635,748</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, 2019, management has determined that the Organization has no such risk and, therefore, no liabilities have been recorded for uncertain tax positions.

**19. Subsequent Events**

Management has evaluated subsequent events through March 17, 2020, the date on which the financial statements were available to be issued. During the period from the end of the year, and through this date, the following circumstances occurred that require recognition or disclosure in these financial statements:



**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Schedules of Activities - (Non-GAAP)  
For the Years Ended September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Public Support:</b>		
Local funds	\$ 2,657,862	\$ 2,764,615
Federal funds	2,329,296	1,401,515
State funds	300,686	258,313
Other revenue	<u>341,245</u>	<u>126,299</u>
Total public support and other revenue	<u>5,629,090</u>	<u>4,550,742</u>
<b>Expenses:</b>		
Salaries	2,937,596	2,633,589
Payroll taxes and benefits	690,248	622,069
Licensure and accreditation	8,722	6,200
Contracted services	43,913	57,839
Supplies	71,482	30,973
Occupancy	565,052	403,170
Postage and printing	3,583	1,751
Insurance and bonding	54,616	52,013
Food services	36,017	27,079
Staff development	98,067	77,961
Transportation	77,875	67,323
Dues and subscriptions	15,194	13,567
Staff recruiting	20,021	1,281
Professional fees	14,439	13,004
Equipment purchase/lease/maintenance	27,620	13,525
Client Specific Expenses	30,511	29,048
Development	8,402	17,507
Recreation	35,632	33,924
Data processing	68,712	21,388
Miscellaneous	<u>25,040</u>	<u>19,450</u>
Total expenses	<u>4,832,742</u>	<u>4,142,661</u>
Change in net assets	796,348	408,081
<b>Reconciliation From Modified to Full Accrual Basis:</b>		
Less: Depreciation	<u>178,551</u>	<u>144,994</u>
Change in net assets	<u>\$ 617,797</u>	<u>\$ 263,087</u>

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

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**Independent Auditors' Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial Statements Performed  
In Accordance With Government Auditing Standards**

To the Board of Directors of  
Southmountain Children and Family Services

We have audited, in accordance with the 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, the financial statements of Southmountain Children and Family Services (a nonprofit organization), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Southmountain Children and Family Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southmountain Children and Family Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Southmountain Children and Family Services' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Southmountain Children and Family Services' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as item 2019-001.

## **Southmountain Children and Family Services' Response to Findings**

Southmountain Children and Family Services' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Southmountain Children and Family Services' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Low Smith Church & Co., L.L.P.*

Morganton, North Carolina  
March 17, 2020

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

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**Independent Auditors' Report on Compliance For Each Major Federal Program  
And On Internal Control Over Compliance Required By The Uniform Guidance  
And the State Single Audit Implementation Act**

To the Board of Directors of  
Southmountain Children and Family Services

**Report on Compliance for Each Major Federal Program**

We have audited Southmountain Children and Family Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the Audit Manual For Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of Southmountain Children and Family Services' major federal programs for the year ended September 30, 2019. Southmountain Children and Family Services' major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and responses.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Southmountain Children and Family Services' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and the Audit Requirements for Federal Awards (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program, occurred. An audit includes examining, on a test basis, evidence about Southmountain Children and Family Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Southmountain Children and Family Services' compliance.

## Opinion on Each Major Federal Program

In our opinion, Southmountain Children and Family Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

## Report on Internal Control Over Compliance

Management of Southmountain Children and Family Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southmountain Children and Family Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southmountain Children and Family Services' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance, and the results of that testing, based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Low Smith Chew & Co., L.L.P.*

Morganton, North Carolina  
March 17, 2020

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**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

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**Schedule of Findings and Responses  
For the Year Ended September 30, 2019**

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**Section I. Summary of Auditors' Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no  
Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted  yes  no

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?  yes  no  
Significant deficiency(ies) identified?  yes  none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

Identification of major federal programs:

<u>CFDA#</u>	<u>Name of Federal Program or Cluster</u>
16.575	Victims of Crime Act

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee?  yes  no

**State Awards**

None

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**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Schedule of Findings and Responses  
For the Year Ended September 30, 2019**

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**Section II. Financial Statement Findings**

**Finding: 2019-001**

Preparation of the Financial Statements

Condition: Lowdermilk Church & Co., L.L.P. (the independent auditors) prepared the draft financial statements for the Organization. As with most smaller organizations, this becomes necessary due to the cost benefit of either out-sourcing or hiring personnel with the expertise to prepare financial statements in conformity with generally accepted accounting principles.

Effect: If the Organization prepared the financial statements, they may not be prepared in accordance with generally accepted accounting principles (GAAP).

**Section III. Federal Award Findings and Questioned Costs**

None reported.

**Section IV. State Award Findings and Questioned Costs**

None reported.

**Corrective Action Plan  
For the Year Ended September 30, 2019**

**Section II. Financial Statement Findings**

**Finding: 2019-001**

Name of Contact Person: W. Chris Jernigan

Response: The Board of Directors and management will continue services with the independent accountants to prepare the financial statements in accordance with generally accepted accounting principles.

**Section III. Federal Award Findings and Questioned Costs**

None reported.

**Section IV. State Award Findings and Questioned Costs**

None reported.



**SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES**

**Schedule of Expenditures of Federal and State Awards  
For the Year Ended September 30, 2019**

	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Federal (Direct &amp; Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<b>Federal Grants:</b>					
<b>Cash Programs:</b>					
<u>U. S. Department of Justice</u>					
Passed-through N. C. Department of Public Safety - Governor's Crime Commission:					
Victims of Crime Act (VOCA)	16.575	14-I-2659	\$1,740,663	\$ -	\$200,046
Passed-through N. C. Child Advocacy Center:					
Victims of Crime Act (VOCA)	16.758		<u>31,964</u>	-	-
Total assistance - federal programs			<u>1,772,627</u>	-	<u>200,046</u>
<b>State Grants:</b>					
<b>Cash Assistance:</b>					
<u>N. C. Department of Health and Human Services:</u>					
Children's Advocacy Center			-	<u>268,722</u>	-
Total assistance - State Programs			-	<u>268,722</u>	-
Total assistance			<u>\$1,772,627</u>	<u>\$268,722</u>	<u>\$200,046</u>

**Notes to the Schedule of Expenditures of Federal and State Awards:**

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of Southmountain Children and Family Services under the programs of the federal government and the State of North Carolina for the year ended September 30, 2019. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Southmountain Children and Family Services, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of Southmountain Children and Family Services.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable, or are limited, as to reimbursement.

**Note 3. Indirect Cost Rate**

Southmountain Children and Family Services has elected not to use the 10-percent de minimus indirect cost as allowed under the Uniform Guidance.