

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

Financial Statements, Supplementary Information, Compliance Reports
and Independent Auditors' Report
For the Years Ended September 30, 2021 and 2020

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

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

Table of Contents

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 | 21-22 |
| Schedule of Findings and Responses | 23-24 |
| Corrective Action Plan | 25 |
| Schedule of Expenditures of Federal and State Awards | 26-27 |

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

**Executive Committee and Board of Trustees
September 30, 2021**

Executive Committee

Rod Willcox, Chairman
Gerry Knox, Vice Chairman
Lisa Buff, Treasurer
Susan McCracken, Secretary
David Rust
Mike Tanner

Board of Trustees

Flake Brantley
Coulter Brinkley
Frank Dean
Michelle Elliott
Ola Caldwell

Ron Lackey
Dale Winn
Rebecca McLeod
Joseph Delk
Tom Johnson

Trustee Emeritus

Jack Isaacs, Sr.

Executive Director

W. Chris Jernigan

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

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

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, 2021 and 2020, 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 Principle, and Audit Requirements for Federal Awards* and Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis 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 16, 2022, 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.

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

Morganton, North Carolina
March 16, 2022

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

**Statements of Financial Position
September 30, 2021 and 2020**

| | <u>Notes</u> | <u>2021</u> | | <u>Total</u> |
|------------------------------------------|--------------|---------------------------------------|------------------------------------|--------------------|
| | | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | |
| <u>Assets</u> | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | 1 | \$ 1,046,768 | \$ 262,556 | \$1,309,324 |
| Short term equivalents | | 1,919,806 | - | 1,919,806 |
| Accounts receivable | 1, 2 | 1,505,071 | - | 1,505,071 |
| Security deposits | | 4,100 | - | 4,100 |
| Prepaid expense | | 5,218 | - | 5,218 |
| Total current assets | | 4,480,963 | 262,556 | 4,743,519 |
| Property, plant and equipment: | | | | |
| Property, plant and equipment - net | 1, 3 | 2,814,903 | - | 2,814,903 |
| Noncurrent assets: | | | | |
| Investments | 4 | - | - | - |
| Total assets | | <u>\$ 7,295,866</u> | <u>\$ 262,556</u> | <u>\$7,558,422</u> |
| <u>Liabilities and Net Assets</u> | | | | |
| Current liabilities: | | | | |
| Accounts payable | | \$ 2,676 | \$ - | \$ 2,676 |
| Accrued expenses | | 600 | - | 600 |
| Refundable advance | | - | 256,000 | 256,000 |
| Note payable - current | | 4,522 | - | 4,522 |
| Total current liabilities | | 7,798 | 256,000 | 263,798 |
| Long-term Liabilities: | | | | |
| Note payable | | 4,042 | - | 4,042 |
| Total liabilities | | 11,840 | 256,000 | 267,840 |
| Net assets: | | | | |
| Without donor restrictions | | 7,284,026 | - | 7,284,026 |
| With donor restrictions | | - | 6,556 | 6,556 |
| Total net assets | | 7,284,026 | 6,556 | 7,290,582 |
| Total liabilities and net assets | | <u>\$ 7,295,866</u> | <u>\$ 262,556</u> | <u>\$7,558,422</u> |

See accompanying notes to financial statements.

| 2020 | | |
|---------------------------------------|------------------------------------|--------------------|
| <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| \$ 847,217 | \$ 171,578 | \$1,018,795 |
| 1,026,213 | - | 1,026,213 |
| 1,621,959 | - | 1,621,959 |
| 4,450 | - | 4,450 |
| 4,486 | - | 4,486 |
| <hr/> | <hr/> | <hr/> |
| 3,504,325 | 171,578 | 3,675,903 |
| | | |
| 3,032,496 | - | 3,032,496 |
| | | |
| - | - | - |
| <hr/> | <hr/> | <hr/> |
| <u>\$ 6,536,822</u> | <u>\$ 171,578</u> | <u>\$6,708,400</u> |
| | | |
| \$ 9,731 | \$ - | \$ 9,731 |
| 295 | - | 295 |
| - | 165,022 | 165,022 |
| 48,717 | - | 48,717 |
| <hr/> | <hr/> | <hr/> |
| 58,743 | 165,022 | 223,765 |
| | | |
| 44,120 | - | 44,120 |
| <hr/> | <hr/> | <hr/> |
| 102,863 | 165,022 | 267,885 |
| | | |
| 6,433,959 | - | 6,433,959 |
| - | 6,556 | 6,556 |
| <hr/> | <hr/> | <hr/> |
| 6,433,959 | 6,556 | 6,440,515 |
| <hr/> | <hr/> | <hr/> |
| <u>\$ 6,536,822</u> | <u>\$ 171,578</u> | <u>\$6,708,400</u> |

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

**Statements of Activities
For the Years Ended September 30, 2021 and 2020**

| | 2021 | | <u>Total</u> |
|---------------------------------------------------|---------------------------------------|------------------------------------|------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | |
| Public Support: | | | |
| Local funds: | | | |
| United Way | \$ 7,020 | \$ - | \$ 7,020 |
| Department of Social Services | 1,357,794 | - | 1,357,794 |
| Private insurance | 30,800 | - | 30,800 |
| Religious organizations | 7,955 | - | 7,955 |
| Civic and fraternal organizations | 6,692 | - | 6,692 |
| Trusts, foundations and non-government grants | 653,269 | - | 653,269 |
| Corporations and individuals | 142,498 | - | 142,498 |
| Special events - net | 10,774 | - | 10,774 |
| Thrift store revenue | 14,418 | - | 14,418 |
| Training revenue | - | - | - |
| Total local funds | <u>2,231,220</u> | <u>-</u> | <u>2,231,220</u> |
| State and federal funds: | | | |
| Child Medical Evaluation Program | 83,205 | - | 83,205 |
| Crime Victims Compensation Commission | 6,567 | - | 6,567 |
| Governor's Crime Commission | 2,659,177 | - | 2,659,177 |
| State funds - Children's Advocacy Centers of NC | 273,004 | - | 273,004 |
| Federal funds - Children's Advocacy Centers of NC | 753,527 | - | 753,527 |
| Medicaid | 730,019 | - | 730,019 |
| Paycheck Protection Program | - | 245,022 | 245,022 |
| Title I | 49,943 | - | 49,943 |
| Total state and federal funds | <u>4,555,441</u> | <u>245,022</u> | <u>4,800,463</u> |
| Net assets released from restrictions: | | | |
| Satisfaction of program transactions | <u>245,022</u> | <u>(245,022)</u> | <u>-</u> |
| Total public support | <u>7,031,683</u> | <u>-</u> | <u>7,031,683</u> |
| Expenses: | | | |
| Program services | 5,468,689 | - | 5,468,689 |
| Supporting services | 814,359 | - | 814,359 |
| Total expenses | <u>6,283,048</u> | <u>-</u> | <u>6,283,048</u> |
| Operating income (loss) | <u>748,635</u> | <u>-</u> | <u>748,635</u> |

| 2020 | | |
|---------------------------------------|------------------------------------|------------------|
| <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| \$ 2,977 | \$ - | \$ 2,977 |
| 1,333,581 | - | 1,333,581 |
| 32,708 | - | 32,708 |
| 10,234 | - | 10,234 |
| 4,798 | - | 4,798 |
| 741,760 | 2,000 | 743,760 |
| 115,548 | - | 115,548 |
| 36,110 | - | 36,110 |
| 14,675 | - | 14,675 |
| - | - | - |
| <u>2,292,390</u> | <u>2,000</u> | <u>2,294,390</u> |
| 37,380 | - | 37,380 |
| 4,623 | - | 4,623 |
| 2,815,907 | - | 2,815,907 |
| 381,571 | - | 381,571 |
| 38,857 | - | 38,857 |
| 608,907 | - | 608,907 |
| - | 456,207 | 456,207 |
| <u>37,028</u> | <u>-</u> | <u>37,028</u> |
| <u>3,924,274</u> | <u>456,207</u> | <u>4,380,481</u> |
| <u>500,330</u> | <u>(500,330)</u> | <u>-</u> |
| <u>6,716,994</u> | <u>(42,123)</u> | <u>6,674,871</u> |
| 5,148,699 | - | 5,148,699 |
| <u>662,012</u> | <u>-</u> | <u>662,012</u> |
| <u>5,810,711</u> | <u>-</u> | <u>5,810,711</u> |
| <u>906,283</u> | <u>(42,123)</u> | <u>864,160</u> |

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

Statements of Activities
For the Years Ended September 30, 2021 and 2020

| | 2021 | | <u>Total</u> |
|--------------------------------------------------------|---------------------------------------------|------------------------------------------|---------------------|
| | <u>Without Donor</u> <u>Restrictions</u> | <u>With Donor</u> <u>Restrictions</u> | |
| Other Revenues (Expenses): | | | |
| Miscellaneous | \$ 23,838 | \$ - | \$ 23,838 |
| Rent and lease | 38,773 | - | 38,773 |
| Utility reimbursements | 14,524 | - | 14,524 |
| Gain (loss) on disposal of assets and/or sale of stock | 9 | - | 9 |
| Unrealized gain (loss) on investments | - | - | - |
| Interest and dividend income | 24,289 | - | 24,289 |
| | <u>101,431</u> | <u>-</u> | <u>101,431</u> |
| Total other revenues (expenses) | | | |
| Change in net assets | 850,067 | - | 850,067 |
| Net assets, beginning of year | <u>6,433,959</u> | <u>6,556</u> | <u>6,440,515</u> |
| Net assets, end of year | <u>\$ 7,284,026</u> | <u>\$ 6,556</u> | <u>\$ 7,290,582</u> |

See accompanying notes to financial statements.

| 2020 | | |
|---------------------------------------|------------------------------------|---------------------|
| <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| \$ 18,448 | \$ - | \$ 18,448 |
| 32,189 | - | 32,189 |
| 14,654 | - | 14,654 |
| 918 | - | 918 |
| (30) | - | (30) |
| <u>21,088</u> | <u>-</u> | <u>21,088</u> |
| <u>87,266</u> | <u>-</u> | <u>87,266</u> |
| 993,550 | (42,123) | 951,427 |
| <u>5,440,409</u> | <u>48,679</u> | <u>5,489,088</u> |
| <u>\$ 6,433,959</u> | <u>\$ 6,556</u> | <u>\$ 6,440,515</u> |

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

**Statements of Functional Expenses
For the Years Ended September 30, 2021 and 2020**

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

See accompanying notes to financial statements.

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

**Statements of Functional Expenses
For the Years Ended September 30, 2021 and 2020**

| | 2020 | | | | | |
|---------------------------------------|-------------------------|-----------------------|------------------------|---------------------|------------------|--------------|
| | Program Services | | | Supporting Services | | |
| | Residential Foster Care | Child Advocacy Center | Evidence Based Therapy | Program Support | Program Services | Total |
| Expenses: | | | | | | |
| Salaries | \$ 896,742 | \$ 1,175,971 | \$ 672,876 | \$ 134,684 | \$ 2,880,273 | \$ 3,308,239 |
| Payroll taxes and benefits | 187,043 | 266,681 | 134,285 | 38,904 | 626,913 | 714,062 |
| Total salaries and related expenses | 1,083,785 | 1,442,652 | 807,161 | 173,588 | 3,507,186 | 4,022,301 |
| Supplies | 11,656 | 129,848 | 39,487 | 402 | 181,393 | 192,480 |
| Occupancy | 248,046 | 398,859 | 8,677 | 83,147 | 738,729 | 753,552 |
| Postage and printing | 15 | 1,024 | 129 | 9 | 1,177 | 3,665 |
| Insurance and bonding | 24,493 | 23,328 | 11,915 | 18,192 | 77,928 | 92,839 |
| Development | - | - | - | - | - | 2,960 |
| Food services | 5,852 | 10,070 | 213 | - | 16,135 | 23,383 |
| Staff development | 4,846 | 75,429 | 9,674 | - | 89,949 | 94,821 |
| Conferences, conventions and meetings | 107 | 976 | 318 | - | 1,401 | 5,508 |
| Transportation | 17,455 | 19,684 | 5,327 | 24 | 42,490 | 63,771 |
| Dues and subscriptions | 111 | 8,040 | 312 | - | 8,463 | 12,164 |
| Licenses and accreditations | 20,739 | 175 | 238 | - | 21,152 | 21,354 |
| Staff recruiting | 3,323 | 17,892 | 17,552 | 47 | 38,814 | 39,000 |
| Professional fees | - | - | - | - | - | 18,453 |
| Equipment purchase/lease/maintenance | 1,483 | 24,040 | 731 | - | 26,254 | 29,820 |
| Client specific expenses | 14,861 | 16,417 | 1,528 | - | 32,806 | 32,806 |
| Contracted services | 6,770 | 11,484 | 1,845 | - | 20,099 | 20,099 |
| Billing/credentialing | 265 | 730 | 56,321 | - | 57,316 | 57,316 |
| Recreation | 25,571 | 1,200 | - | - | 26,771 | 26,771 |
| Data processing | 3,268 | 2,459 | 34,049 | - | 39,776 | 39,896 |
| Miscellaneous | 2,717 | 1,476 | 2,111 | 27 | 6,331 | 27,693 |
| Total expenses before depreciation | 1,475,363 | 2,185,783 | 997,588 | 275,436 | 4,934,170 | 5,580,652 |
| Depreciation | 118,444 | 87,239 | - | 8,846 | 214,529 | 230,059 |
| Total expenses | \$ 1,593,807 | \$ 2,273,022 | \$ 997,588 | \$ 284,282 | \$ 5,148,699 | \$ 5,810,711 |

See accompanying notes to financial statements.

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

Statements of Cash Flows For the Years Ended September 30, 2021 and 2020

| | 2021 | | Total |
|---------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | |
| Cash Flows From Operating Activities: | | | |
| Funds received | \$ 7,228,810 | \$ 256,000 | \$ 7,484,810 |
| Interest received | 24,279 | - | 24,279 |
| Interest expense | (1,139) | - | (1,139) |
| Operating expenses | (6,288,659) | - | (6,288,659) |
| Net assets released from restrictions | 165,022 | (165,022) | - |
| Net cash provided (used) by operating activities | <u>1,128,313</u> | <u>90,978</u> | <u>1,219,291</u> |
| Cash Flows From Investing Activities: | | | |
| Interest on investments | 10 | - | 10 |
| (Purchases) sales of short-term equivalents | (893,593) | - | (893,593) |
| (Purchases) Proceeds from sale of stocks | 9,865 | - | 9,865 |
| Proceeds from sale of fixed assets | - | - | - |
| Purchase of fixed assets | (40,771) | - | (40,771) |
| Net cash provided (used) by investing activities | <u>(924,489)</u> | <u>-</u> | <u>(924,489)</u> |
| Cash Flows From Financing Activities: | | | |
| Proceeds from borrowing | - | - | - |
| Payments on long-term debt | (4,273) | - | (4,273) |
| Net cash provided (used) by financing activities | <u>(4,273)</u> | <u>-</u> | <u>(4,273)</u> |
| Net increase (decrease) in cash and cash equivalents | 199,551 | 90,978 | 290,529 |
| Beginning cash and cash equivalents | <u>847,217</u> | <u>171,578</u> | <u>1,018,795</u> |
| Ending cash and cash equivalents | <u>\$ 1,046,768</u> | <u>\$ 262,556</u> | <u>\$ 1,309,324</u> |
| Reconciliation of Changes in Net Assets to Net Cash Provided (Used) by Operating Activities: | | | |
| Changes in net assets | \$ 850,067 | \$ - | \$ 850,067 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | | |
| Depreciation | 258,365 | - | 258,365 |
| Donation of stocks and/or fixed assets | (9,856) | - | (9,856) |
| Paycheck Protection Plan loan forgiveness | (80,000) | - | (80,000) |
| Interest on investments | (10) | - | (10) |
| (Gain) loss on sale of stocks | (9) | - | (9) |
| Unrealized (gain) loss on investments | - | - | - |
| (Increase) decrease in operating assets: | | | |
| Accounts receivable | 116,888 | - | 116,888 |
| Security deposits | 350 | - | 350 |
| Prepaid expense | (732) | - | (732) |
| Increase (decrease) in operating liabilities: | | | |
| Accounts payable | (7,055) | - | (7,055) |
| Refundable advance | - | 90,978 | 90,978 |
| Accrued expenses | 305 | - | 305 |
| Total | <u>278,246</u> | <u>90,978</u> | <u>369,224</u> |
| Net cash provided (used) by operating activities | <u>\$ 1,128,313</u> | <u>\$ 90,978</u> | <u>\$ 1,219,291</u> |
| Schedule of Noncash Investing Activities: | | | |
| Net change in unrealized securities available for sale | \$ - | \$ - | \$ - |
| Donation of stocks and/or fixed assets | <u>\$ 9,856</u> | <u>\$ -</u> | <u>\$ 9,856</u> |

See accompanying notes to financial statements.

| 2020 | | |
|---------------------------------------|------------------------------------|---------------------|
| <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| \$ 5,827,028 | \$ 623,229 | \$ 6,450,257 |
| 19,117 | - | 19,117 |
| (1,139) | - | (1,139) |
| (5,609,888) | - | (5,609,888) |
| 500,330 | (500,330) | - |
| <u>735,448</u> | <u>122,899</u> | <u>858,347</u> |
| 1,971 | - | 1,971 |
| (814,962) | - | (814,962) |
| 123,126 | - | 123,126 |
| - | - | - |
| (227,345) | - | (227,345) |
| <u>(917,210)</u> | <u>-</u> | <u>(917,210)</u> |
| 80,000 | - | 80,000 |
| (4,038) | - | (4,038) |
| <u>75,962</u> | <u>-</u> | <u>75,962</u> |
| (105,800) | 122,899 | 17,099 |
| 953,017 | 48,679 | 1,001,696 |
| <u>\$ 847,217</u> | <u>\$ 171,578</u> | <u>\$ 1,018,795</u> |
| | | |
| \$ 993,550 | \$ (42,123) | \$ 951,427 |
| 230,059 | - | 230,059 |
| (42,867) | - | (42,867) |
| - | - | - |
| (1,971) | - | (1,971) |
| (918) | - | (918) |
| 30 | - | 30 |
| (413,093) | - | (413,093) |
| 1,033 | - | 1,033 |
| 21,293 | - | 21,293 |
| 2,708 | - | 2,708 |
| - | 165,022 | 165,022 |
| (54,375) | - | (54,375) |
| (258,101) | 165,022 | (93,079) |
| <u>\$ 735,448</u> | <u>\$ 122,899</u> | <u>\$ 858,347</u> |
| | | |
| \$ 30 | \$ - | \$ 30 |
| <u>\$ 42,867</u> | <u>\$ -</u> | <u>\$ 42,867</u> |

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

Notes to the Financial Statements For the Years Ended September 30, 2021 and 2020

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.

Credit Risk - At September 30, 2021 and 2020, 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, 2021 and 2020, in the amount of \$-0- 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>2021</u> | <u>2020</u> |
|---------------------------------------|--------------------|--------------------|
| County Departments of Social Services | \$ 100,775 | \$ 97,634 |
| State and federal agencies | 1,288,351 | 1,515,294 |
| Other | <u>115,945</u> | <u>9,031</u> |
| Total | <u>\$1,505,071</u> | <u>\$1,621,959</u> |

3. Property, Plant and Equipment

Property, plant and equipment is summarized as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|--------------------|--------------------|
| Land | \$ 157,212 | \$ 157,212 |
| Land improvements | 92,565 | 92,565 |
| Buildings | 5,184,070 | 5,184,070 |
| Equipment | 640,000 | 626,779 |
| Vehicles | <u>305,321</u> | <u>277,770</u> |
| Total | 6,379,168 | 6,338,396 |
| Less accumulated depreciation | <u>(3,564,265)</u> | <u>(3,305,900)</u> |
| Property, plant and equipment - net | <u>\$2,814,903</u> | <u>\$3,032,496</u> |

Depreciation expense was \$258,365 and \$230,059 for the fiscal years ended September 30, 2021 and 2020, respectively.

4. Investments

The following is a summary of the Organization's investments as of September 30, 2021 and 2020:

| <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 9/30/21</u> |
| Stocks | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (9)</u> | <u>\$ -</u> | <u>\$ 9</u> | <u>\$ -</u> |
| <u>2020</u> | | | | | | |
| | <u>Cost</u> | <u>Fair Value 9/30/19</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 | <u>\$ -</u> | <u>\$ 77,641</u> | <u>\$ (78,529)</u> | <u>\$ (30)</u> | <u>\$ 918</u> | <u>\$ -</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, 2021 and 2020 are as follows:

| | <u>2021</u> | | <u>2020</u> | |
|-------------|-------------------|-----------------------------------------------------------------------|-------------------|-----------------------------------------------------------------------|
| | <u>Fair Value</u> | <u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u> | <u>Fair Value</u> | <u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u> |
| Investments | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</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>2021</u> | <u>2020</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 | \$12,837 |
| Paycheck Protection Program Loan (Note 8) | <u>-</u> 8,564 | <u>80,000</u> 92,837 |
| Less current installments | <u>(4,522)</u> | <u>(48,717)</u> |
| Total long-term debt | <u>\$4,042</u> | <u>\$44,120</u> |

Interest expense for the years ended September 30, 2021 and 2020 was \$370 and \$1,138, respectively.

Maturities of long-term debt subsequent to September 30, 2021 are summarized as follows:

| <u>Year Ending September 30:</u> | <u>Amount</u> |
|----------------------------------|----------------|
| 2022 | \$4,522 |
| 2023 | <u>4,042</u> |
| Total | <u>\$8,564</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 \$701,229 of the loan, as of September 30, 2020 and 2021, 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. 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.

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>2021</u> | <u>2020</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 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 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 \$38,773 and \$32,189 annual rental income in 2021 and 2020, 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, 2021 are as follows:

| <u>Year Ended:</u> | <u>Amount</u> |
|--------------------------------------|------------------|
| 2022 | \$124,532 |
| 2023 | 99,811 |
| 2024 | 96,000 |
| 2025 | <u>27,600</u> |
| Total minimum future rental payments | <u>\$347,943</u> |

Rental expense under all operating leases was \$176,740 and \$165,465 for the years ended September 30, 2021 and 2020, 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 \$16,349 and \$13,533 for the years ended September 30, 2021 and 2020, 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>2021</u> | <u>2020</u> |
|-------------------------------------------------------------------------|--------------------|--------------------|
| Cash and cash equivalents | \$1,309,324 | \$1,018,795 |
| Short-term equivalents | 1,919,806 | 1,026,213 |
| Accounts receivable | <u>1,505,071</u> | <u>1,621,959</u> |
| | 4,734,201 | 3,666,967 |
| Less those unavailable for general expenditure within one year, due to: | | |
| Refundable advance | 256,000 | 165,022 |
| Donor restrictions as to time or purpose | <u>6,556</u> | <u>6,556</u> |
| | <u>\$4,471,645</u> | <u>\$3,495,389</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, 2021, management has determined that the Organization has no such risk and, therefore, no liabilities have been recorded for uncertain tax positions.

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, 2021 and 2020, the Organization had \$256,000 and \$165,022, respectively, in refundable advances.

20. Subsequent Events

Management has evaluated subsequent events through March 16, 2022, 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, 2021, since the full impact of COVID-19 is unknown and cannot be reasonably estimated as of March 16, 2022.

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

**Schedules of Activities - (Non-GAAP)
For the Years Ended September 30, 2021 and 2020**

| | <u>2021</u> | <u>2020</u> |
|----------------------------------------------------------------|-----------------------|-----------------------|
| Public Support: | | |
| Local funds | \$ 2,231,220 | \$ 2,294,390 |
| Federal funds | 4,527,459 | 3,960,057 |
| State funds | 273,004 | 420,428 |
| Other revenue | <u>101,431</u> | <u>87,261</u> |
| Total public support and other revenue | <u>7,133,114</u> | <u>6,762,137</u> |
| Expenses: | | |
| Salaries | 3,825,544 | 3,308,239 |
| Payroll taxes and benefits | 800,752 | 714,062 |
| Licensure and accreditation | 36,855 | 21,354 |
| Contracted services | 35,042 | 20,099 |
| Supplies | 97,241 | 203,970 |
| Occupancy | 633,297 | 753,552 |
| Postage and printing | 4,105 | 3,665 |
| Insurance and bonding | 99,713 | 92,839 |
| Food services | 18,123 | 23,383 |
| Staff development | 62,023 | 94,821 |
| Conferences, conventions and meetings | 4,979 | 5,508 |
| Transportation | 59,796 | 63,771 |
| Dues and subscriptions | 17,686 | 12,164 |
| Staff recruiting | 20,277 | 39,000 |
| Professional fees | 22,096 | 18,453 |
| Equipment purchase/lease/maintenance | 99,261 | 18,330 |
| Client Specific Expenses | 41,194 | 32,806 |
| Development | 24,051 | 2,960 |
| Recreation | 39,380 | 26,771 |
| Data processing | 39,333 | 39,896 |
| Billing/Credentialing | 19,245 | 57,316 |
| Miscellaneous | <u>24,690</u> | <u>27,693</u> |
| Total expenses | <u>6,024,683</u> | <u>5,580,652</u> |
| Change in net assets | 1,108,431 | 1,181,485 |
| Reconciliation From Modified to Full Accrual Basis: | | |
| Less: Depreciation | <u>258,365</u> | <u>230,059</u> |
| Change in net assets | <u>\$ 850,067</u> | <u>\$ 951,427</u> |

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

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

**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, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2022.

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 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 2021-001 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 financial statements. 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 2021-001.

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 16, 2022

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

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

**Independent Auditors' Report on Compliance For Each Major Federal Program
And On Internal Control Over Compliance Required By The Uniform Guidance**

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* 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, 2021. Southmountain Children and Family Services' major federal programs are identified in the summary of 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). Those standards, and the Uniform Guidance, 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, 2021.

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 Church & Co., L.L.P.

Morganton, North Carolina
March 16, 2022

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

**Schedule of Findings and Responses
For the Year Ended September 30, 2021**

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 X no
Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? yes X no
Significant deficiency(ies) identified? yes X 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 X no

Identification of major federal programs:

| <u>CFDA#</u> | <u>Name of Federal Program or Cluster</u> |
|--------------|-------------------------------------------|
| 16.575 | Victims of Crime Act |
| 21.019 | Coronavirus Relief Act |

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

Auditee qualified as low-risk auditee? X yes no

State Awards

None

SOUTHMOUNTAIN CHILDREN AND FAMILY SERVICES

**Schedule of Findings and Responses
For the Year Ended September 30, 2021**

Section II. Financial Statement Findings

Finding: 2021-001

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 Responses

None reported.

Section IV. State Award Findings and Responses

None reported.



**Corrective Action Plan
For the Year Ended September 30, 2021**

Section II. Financial Statement Findings

Finding: 2021-001

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 Responses

None reported.

Section IV. State Award Findings and Responses

None reported.



SOUTH MOUNTAIN CHILDREN AND FAMILY SERVICES

**Schedule of Expenditures of Federal and State Awards
For the Year Ended September 30, 2021**

| <u>Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal Assistance Listing Number</u> | <u>State/Pass-through Grantor's Number</u> | <u>Federal (Direct & Pass-through) Expenditures</u> | <u>State Expenditures</u> | <u>Local Expenditures</u> |
|---------------------------------------------------------------------------------------------------------------|------------------------------------------|--------------------------------------------|---------------------------------------------------------|---------------------------|---------------------------|
| Federal Grants: | | | | | |
| Cash Programs: | | | | | |
| <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 | 2019-V2-GX-0067 | \$2,356,065 | \$ - | \$ - |
| Victims of Crime Act (VOCA) | 16.575 | 2020-V2-GX-0057 | 303,112 | | |
| Passed-through National Child Alliance: | | | | | |
| Children's Advocacy Centers of North Carolina | | | | | |
| Improving the Investigation and Prosecution of Child Abuse and Regional and Local Children's Advocacy Centers | 16.758 | 2018-CI-FX-K003 | 12,605 | - | - |
| Department of Treasury | | | | | |
| Passed-through North Carolina Pandemic Recovery Office: | | | | | |
| Children's Advocacy Centers of North Carolina: | | | | | |
| Coronavirus Relief Fund | 21.019 | | 505,522 | - | - |
| <u>N. C. Department of Health and Human Services:</u> | | | | | |
| Passed-through Children's Advocacy Centers of North Carolina: | | | | | |
| Temporary Assistance For Needy Families | 93.558 | | 33,067 | - | - |
| Child Abuse and Neglect | 93.669 | 1901NCNCAN | 201,197 | - | - |
| Child Abuse and Neglect | 93.669 | | 380 | - | - |
| Total assistance - Federal Programs | | | <u>3,411,948</u> | - | - |
| State Grants: | | | | | |
| Cash Assistance: | | | | | |
| <u>N. C. Department of Health and Human Services:</u> | | | | | |
| Children's Advocacy Center | | | | 273,003 | - |
| Total assistance - State Programs | | | | <u>273,003</u> | - |
| Total assistance | | | | <u>\$273,003</u> | <u>\$ -</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, 2021. 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.