



Audited Financial Statements

Great Smoky Mountains Association

Year Ended December 31, 2018

GREAT SMOKY MOUNTAINS ASSOCIATION

Audited Financial Statements

Year Ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Great Smoky Mountains Association:

We have audited the accompanying financial statements of Great Smoky Mountains Association (the Association), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Great Smoky Mountains Association as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DYA, PC

Knoxville, Tennessee
September 20, 2019

GREAT SMOKY MOUNTAINS ASSOCIATION

Statement of Financial Position

	<i>December 31, 2018</i>
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ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,141,307
Investments	744,563
Accounts receivable	11,548
Inventories	920,827
Prepaid expenses	24,390
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TOTAL CURRENT ASSETS	4,842,635
PROPERTY AND EQUIPMENT, net	332,488
CASH RESTRICTED BY DONORS FOR LONG-TERM PURPOSES	158,418
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TOTAL OTHER ASSETS	490,906
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	\$ 5,333,541
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LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 73,001
Accrued salaries and related liabilities	212,909
Current portion of promissory note	56,331
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TOTAL CURRENT LIABILITIES	342,241
PROMISSORY NOTE, net of current portion	162,116
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TOTAL LIABILITIES	504,357
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COMMITMENTS AND CONTINGENCIES - Note I	
NET ASSETS	
Without donor restrictions	
Board designated	3,229,088
Undesignated	1,102,804
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Total net assets without donor restrictions	4,331,892
With donor restrictions	497,292
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TOTAL NET ASSETS	4,829,184
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TOTAL LIABILITIES AND NET ASSETS	\$ 5,333,541
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GREAT SMOKY MOUNTAINS ASSOCIATION

Statement of Activities and Changes in Net Assets

	<i>Year Ended December 31, 2018</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
REVENUES, GAINS AND OTHER SUPPORT			
Sales revenue, net of discounts	\$ 8,593,309	\$ -	\$ 8,593,309
Donor gifts	354,220	116,988	471,208
Other revenue and support	1,002,169	-	1,002,169
Net assets released from restrictions	29,695	(29,695)	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	9,979,393	87,293	10,066,686
EXPENSES AND LOSSES			
Cost of sales and publications	4,139,779	-	4,139,779
Salaries and benefits	2,832,160	-	2,832,160
Park projects and other	1,655,294	-	1,655,294
Supplies	69,775	-	69,775
Insurance	81,797	-	81,797
Professional services	63,923	-	63,923
Maintenance	194,744	-	194,744
Utilities and telephone	60,630	-	60,630
Depreciation and amortization	114,970	-	114,970
TOTAL EXPENSES AND LOSSES	9,213,072	-	9,213,072
INCOME FROM OPERATIONS	766,321	87,293	853,614
OTHER CHANGES IN NET ASSETS			
Change in net unrealized losses on investments	(20,896)	-	(20,896)
CHANGE IN NET ASSETS	745,425	87,293	832,718
NET ASSETS, BEGINNING OF YEAR	3,586,467	409,999	3,996,466
NET ASSETS, END OF YEAR	\$ 4,331,892	\$ 497,292	\$ 4,829,184

GREAT SMOKY MOUNTAINS ASSOCIATION

Statement of Cash Flows

	<i>Year Ended December 31, 2018</i>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 832,718
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	114,970
Change in net unrealized losses on investments	20,896
Net realized investment gain	(7,228)
Restricted contributions	(116,988)
Increase (decrease) in cash due to changes in:	
Accounts receivable	6,454
Inventories	7,793
Prepaid expenses	(23,131)
Accounts payable and accrued expenses	(2,816)
Accrued salaries and related liabilities	25,214
Total adjustments	<u>25,164</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	857,882
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(68,896)
Purchase of investments	(258,002)
Proceeds from investment redemption	4,097
NET CASH USED IN INVESTING ACTIVITIES	(322,801)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on promissory note	(86,553)
Restricted contributions received	116,988
NET CASH PROVIDED BY FINANCING ACTIVITIES	30,435
NET INCREASE IN CASH AND CASH EQUIVALENTS	565,516
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,734,209</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,299,725</u>
Reconciliation of cash and cash equivalents on Statement of Cash Flows to the Statement of Financial Position:	
Cash and cash equivalents	\$ 3,141,307
Cash restricted by donors for long-term purposes	158,418
	<u>\$ 3,299,725</u>
SUPPLEMENTAL INFORMATION:	
Cash paid for interest	<u>\$ 12,032</u>

See notes to audited financial statements.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Audited Financial Statements

Year Ended December 31, 2018

NOTE A--ORGANIZATION AND OPERATION

Organization: Great Smoky Mountains Association (the Association) was organized in 1953 to assist in the scientific, educational, historical and interpretive activities of the National Park Service (the Park Service) primarily in relation to the Great Smoky Mountains National Park (the Park).

Operations: The Association operates sales counters in eight visitor centers located in and around the Park, as well as conducts mail-order, internet sales and wholesale operations. The Association sells both purchased merchandise and internally developed items.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Aid-to-Park: The Association provides certain services and assets to the Park in exchange for space in visitor centers and other consideration. The value of such rent has not been estimated or reflected in the accompanying financial statements. These services and asset transfers are classified as Aid-to-Park in the summary of functional expenses in Note K. These items consist of salaries and benefits, certain direct costs and property and equipment which are constructed by the Association and donated to the Park. The amount of Aid-to-Park is determined by the Board of Directors of the Association.

Cash and Cash Equivalents: Cash and cash equivalents are defined as highly liquid investments with original maturities of three months or less when purchased and consist of amounts held as bank deposits and in money market and similar accounts. The Association maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation (FDIC). At times throughout the year, the Association may maintain bank account balances in excess of the FDIC insured limit. Management believes the credit risk associated with these deposits is not significant.

Investments: Investments, which consists primarily of shares in various mutual funds and exchange traded funds, are presented at estimated fair value in the Statement of Financial Position. Fair value is determined based upon quoted market prices in an active market. Realized gains and losses, including other-than-temporary unrealized losses, are determined on the average cost per share method. Realized gains, losses, dividends and interest on investments of approximately \$7,000 for the year ended December 31, 2018 are reported in the Statement of Activities and Changes in Net Assets as a component of other revenue and support.

Unrealized gains and losses on investments are reported as other changes in net assets unless losses are considered to be other-than-temporary. Management performs an analysis to determine if losses are other-than-temporary. This analysis considers the amount of any decline in fair value, the time period of such decline, and the Association's ability and intent to hold the security for a period of time sufficient for a recovery of fair value up to the amortized cost of the investment.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Audited Financial Statements - Continued

Year Ended December 31, 2018

At December 31, 2018, the investment portfolio had a net unrealized loss of approximately \$300. Management believes one investment is other-than-temporarily impaired at December 31, 2018 and has included this loss of approximately \$3,500 as a reduction in other revenue and support in the Statement of Activities and Changes in Net Assets.

Inventories: Inventories consist primarily of items purchased for resale, which are stated at the lower of cost (determined by an average cost method) or net realizable value, as well as a small amount of items produced internally. Internally produced items include all significant identifiable direct production costs. Management has evaluated inventories against historical and planned usage and believes that no impairment exists at December 31, 2018.

Property and Equipment: Property and equipment, including betterments of existing facilities, are recorded at cost. Routine maintenance and repairs are charged against operations as incurred. Depreciation and amortization expenses are recognized over the estimated useful life of each asset which range from five to twenty years for building and improvements and five to ten years for equipment and vehicles and are computed using the straight-line method. Improvements on certain properties leased from the Park Service are amortized over the estimated useful lives of the improvements, which in certain cases are greater than the lease term, as management believes these leases will continue to be renewed through the useful life of the assets. The Association's policy is to capitalize assets in excess of \$1,500.

Net Assets with Donor Restrictions: Net assets with donor restrictions are those whose use by the Association has been limited by donors for a specific purpose (Note F).

Donor Gifts: Unconditional promises to give cash and other assets to the Association are reported at fair value at the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at fair value at the date the gift is received. The gifts are reported as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restriction and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. Gifts received in the same year as the related restriction is met are shown as unrestricted in the accompanying financial statements.

Income Taxes: The Association is classified as an organization exempt from federal income taxes as an organization described under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under provisions of the Tennessee Code Annotated. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Association has no uncertain tax positions at December 31, 2018. At December 31, 2018, tax returns filed for 2016 through 2018 are subject to examination by the Internal Revenue Service.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Audited Financial Statements - Continued

Year Ended December 31, 2018

Use of Estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates that affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Fair Value Measurements: In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, financial instruments are categorized among the three valuation hierarchy levels. At December 31, 2018, the Association's investments are classified as Level 1 in the valuation hierarchy. At December 31, 2018, the Association had no liabilities meeting the disclosure requirements established under the guidance of FASB ASC 820.

Recently Issued Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for recognizing revenue and supersedes existing revenue recognition guidance. In addition, ASU 2014-09 will require new and enhanced disclosures. ASU 2014-09 will become effective for years beginning after December 15, 2018. The Association is currently evaluating the effect of the new revenue recognition guidance on the financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall*, which, among other items, requires reporting the change in fair value of equity investments as a component of investment income rather than as a change in net assets. ASU 2016-01 is effective for years beginning after December 15, 2018. The Association cannot determine the impact of implementing this standard until the year of adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires statement of financial position recognition of a liability and right-to-use asset for substantially all leases. ASU 2016-02 is effective for years beginning after December 15, 2019 and requires a modified retrospective transition approach for leases existing at the date of adoption. The Association is currently evaluating the impact of the adoption of this standard on the financial statements.

Recently Adopted Accounting Principle: In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, which requires not-for-profit entities to present two classes of net assets in the financial statements, rather than the three classes required previously. The two classes of net assets under the ASU are "net assets without donor restrictions" and "net assets with donor restrictions." ASU 2016-14 also adds enhanced disclosures, including composition of net assets with donor restrictions and quantitative and qualitative information that communicate the availability of financial assets to meet cash expenditures within one year of the statement of financial position date. This ASU was adopted in 2018 and impacted financial statement presentation and disclosures.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Audited Financial Statements - Continued

Year Ended December 31, 2018

NOTE C--INVENTORIES

Inventories consist of the following at December 31, 2018:

Publications	\$ 394,445
Demo/Theme	463,017
Audio/Visual	50,462
Convenience items	8,038
Vending	3,185
Consignment	1,225
Miscellaneous	455
	<u>\$ 920,827</u>

NOTE D--PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2018:

Land and buildings	\$ 432,348
Building improvements	1,193,226
Equipment	1,531,213
Vehicles	200,770
	<u>3,357,557</u>
Less: accumulated depreciation and amortization	<u>(3,025,069)</u>
	<u>\$ 332,488</u>

NOTE E--LINE OF CREDIT AND NOTE

The following summarizes the Association's outstanding line of credit and note payable at December 31, 2018:

<i>Description</i>	<i>Maturities</i>	<i>Rates</i>	<i>Outstanding Balance 2018</i>
2017 promissory note, secured by substantially all assets of the Association.	Payable in 9 monthly interest only payments beginning in September 2017, with 50 monthly principal and interest payments beginning June 2018.	4.90%	\$ 218,447
			<u>218,447</u>
		Less: current portion	<u>(56,331)</u>
			<u>\$ 162,116</u>

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Audited Financial Statements - Continued

Year Ended December 31, 2018

The 2017 promissory note was provided by Citizens National Bank for the purchase and implementation of a new accounting and point of sale system for the Association.

The Association has an existing line of credit in the amount of \$800,000. The maturity of the note associated with the line of credit extends to September 2021. As of December 31, 2018, there was no outstanding balance related to the line of credit.

Aggregate minimum annual principal payments due on debt obligations for each of the next four years and in the aggregate, is as follows:

<u>Year Ending December 31,</u>	
2019	\$ 56,331
2020	59,171
2021	62,200
2022	40,745
	<u>\$ 218,447</u>

Interest expense was approximately \$12,000 during the year ended December 31, 2018, and is included in Park projects and other in the accompanying Statement of Activities and Changes in Net Assets.

NOTE F--NET ASSETS WITH DONOR RESTRICTIONS

During the year ended December 31, 2018, the Association released \$29,695 of net assets with donor restrictions as this amount was expended in accordance with donor restrictions. This amount was used to further advance the mission of the Association.

At December 31, 2018, net assets with donor restrictions are available for the following purposes:

Internal park programs	\$ 399,746
Sevierville Visitor Center park map exhibit	29,636
Active Trails program	37,858
Other sources	30,052
	<u>\$ 497,292</u>

NOTE G--BENEFIT PLAN

The Association sponsors a 403(b) defined contribution plan, covering substantially all employees of the Association who have completed a minimum of six months of service. The Association made contributions to the plan in the amount of 6% of the eligible participants' compensation.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Audited Financial Statements - Continued

Year Ended December 31, 2018

Plan contributions are invested, at the direction of each participant, in one or more of the funding vehicles available under the plan. Employer contributions are fully vested when such contributions are made. Benefit plan expense was \$88,015 for the year ending December 31, 2018 and is included in salaries and benefits on the statement of activities and changes in net assets.

NOTE H--AVAILABILITY AND LIQUIDITY

The following represents the Association's financial assets at December 31, 2018:

Cash and cash equivalents	\$ 3,299,725
Investments	744,563
Accounts receivable	<u>11,548</u>
Total financial assets	4,055,836
Less:	
Net assets with donor restrictions	497,292
Net assets designated by the Board	<u>3,229,088</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 329,456</u></u>

The Association evaluates operating cash needs on a regular basis to determine the amounts of investments to liquidate to meet cash obligations. The remaining financial assets are invested in accordance with the Association's investment policies. The Association receives amounts from donors which are required to be used for specific purposes or in specific timeframes and, therefore, are not available for general use. Additionally, the Board has designated assets for certain uses. The Board designated amounts may be re-designated for other purposes or for general use upon Board approval.

NOTE I--COMMITMENTS AND CONTINGENCIES

The Association maintains professional liability insurance at December 31, 2018, and intends to maintain such coverages in the future. Management is unaware of any outstanding or pending legal claims at December 31, 2018.

NOTE J--BOARD DESIGNATED FUNDS

The Board of Directors of the Association designates funds without donor restriction that are included in investments or in cash and cash equivalents to be used for specified purposes. Board designations are reduced as funds are expended for the designated purposes. Unused funds at the end of a project are generally redesignated for other purposes.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Audited Financial Statements - Continued

Year Ended December 31, 2018

As of December 31, 2018, the following Board designations exist:

Operating reserve	\$ 450,000
General reserve	207,266
Future Project reserve	1,337,928
Legacy investment	691,758
Emergency reserve	156,636
Capital expenditures reserve	115,000
Future building reserve	100,000
Palmer house project	125,500
Additional aid to park reserve	45,000
	<u>\$ 3,229,088</u>

NOTE K--FUNCTIONAL EXPENSES

The Association provides various aid to the Park and operates sales centers. Management allocates expenses based on estimates of employees' time incurred, usage of resources, and other methods. Administrative expenses includes expenses that are not directly tied to specific programs or functions but provide for the overall support, maintenance, and direction of the Association. Expenses by functional classification for the year ended December 31, 2018 are as follows:

	<i>Aid-to-Park</i>	<i>Membership and Sales Centers</i>	<i>Administrative Expenses</i>	<i>Total</i>
Cost of sales and publications	\$ 149,533	\$ 3,990,246	\$ -	\$ 4,139,779
Salaries and benefits	975,516	824,264	1,032,380	2,832,160
Park projects and other	674,779	795,864	184,651	1,655,294
Supplies	-	12,709	57,066	69,775
Insurance	-	37,146	44,651	81,797
Professional services	-	8,937	54,986	63,923
Maintenance	-	92,747	101,997	194,744
Utilities and telephone	-	20,122	40,508	60,630
Depreciation and amortization	-	86,227	28,743	114,970
Total	<u>\$ 1,799,828</u>	<u>\$ 5,868,262</u>	<u>\$ 1,544,982</u>	<u>\$ 9,213,072</u>

NOTE L--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the December 31, 2018 financial statements.