



Financial Statements

Great Smoky Mountains Association

Years Ended December 31, 2019 and 2018

GREAT SMOKY MOUNTAINS ASSOCIATION

Financial Statements

Years Ended December 31, 2019 and 2018

Independent Auditor’s Report.....1

Financial Statements

Statements of Financial Position.....3
Statements of Activities and Changes in Net Assets4
Statements of Cash Flows.....6
Notes to Financial Statements.....7



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 statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PYA, P.C.

Knoxville, Tennessee

June 19, 2020

GREAT SMOKY MOUNTAINS ASSOCIATION

Statements of Financial Position

	<i>December 31,</i>	
	<i>2019</i>	<i>2018</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,335,936	\$ 3,141,307
Investments	1,196,559	744,563
Accounts receivable	140,033	11,548
Inventories	966,836	920,827
Prepaid expenses	28,870	24,390
TOTAL CURRENT ASSETS	<u>6,668,234</u>	4,842,635
PROPERTY AND EQUIPMENT, net	252,093	332,488
CASH RESTRICTED BY DONORS FOR LONG-TERM PURPOSES	<u>121,286</u>	158,418
TOTAL OTHER ASSETS	<u>373,379</u>	490,906
	<u>\$ 7,041,613</u>	<u>\$ 5,333,541</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 140,070	\$ 73,001
Accrued salaries and related liabilities	229,554	212,909
Current portion of promissory note	60,721	56,331
TOTAL CURRENT LIABILITIES	<u>430,345</u>	342,241
PROMISSORY NOTE, net of current portion	<u>71,002</u>	162,116
TOTAL LIABILITIES	<u>501,347</u>	504,357
COMMITMENTS AND CONTINGENCIES - Note J		
NET ASSETS		
Without donor restrictions		
Board designated	4,015,210	3,229,088
Undesignated	1,979,417	1,102,804
Total net assets without donor restrictions	<u>5,994,627</u>	4,331,892
With donor restrictions	545,639	497,292
TOTAL NET ASSETS	<u>6,540,266</u>	4,829,184
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,041,613</u>	<u>\$ 5,333,541</u>

GREAT SMOKY MOUNTAINS ASSOCIATION

Statements of Activities and Changes in Net Assets

	<i>Year Ended December 31, 2019</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
REVENUES, GAINS AND OTHER SUPPORT			
Sales revenue, net of discounts	\$ 9,790,675	\$ -	\$ 9,790,675
Donor gifts	329,153	150,374	479,527
Investment income, net	214,661	-	214,661
Other revenue and support	1,174,589	-	1,174,589
Net assets released from restrictions	102,027	(102,027)	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	11,611,105	48,347	11,659,452
EXPENSES AND LOSSES			
Cost of sales and publications	4,658,353	-	4,658,353
Salaries and benefits	2,957,153	-	2,957,153
Park projects and other	1,577,124	-	1,577,124
Supplies	67,785	-	67,785
Insurance	85,287	-	85,287
Professional services	210,926	-	210,926
Maintenance	211,461	-	211,461
Utilities and telephone	62,125	-	62,125
Depreciation and amortization	118,156	-	118,156
TOTAL EXPENSES AND LOSSES	9,948,370	-	9,948,370
INCOME FROM OPERATIONS	1,662,735	48,347	1,711,082
NET ASSETS, BEGINNING OF YEAR	4,331,892	497,292	4,829,184
NET ASSETS, END OF YEAR	\$ 5,994,627	\$ 545,639	\$ 6,540,266

GREAT SMOKY MOUNTAINS ASSOCIATION

Statements of Activities and Changes in Net Assets - Continued

	<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
Investment income, net	48,269	-	48,269
Other revenue and support	953,900	-	953,900
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

Statements of Cash Flows

	<i>Year Ended December 31,</i>	
	<i>2019</i>	<i>2018</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from operations or change in net assets	\$ 1,711,082	\$ 832,718
Adjustments to reconcile income from operations or change in net assets to net cash provided by operating activities:		
Depreciation and amortization	118,156	114,970
Change in net unrealized (gains)/losses on investments	(138,329)	20,896
Net realized investment gain	(18,687)	(7,228)
Restricted contributions	(150,374)	(116,988)
Increase (decrease) in cash due to changes in:		
Accounts receivable	(128,485)	6,454
Inventories	(46,009)	7,793
Prepaid expenses	(4,480)	(23,131)
Accounts payable and accrued expenses	67,069	(2,816)
Accrued salaries and related liabilities	16,645	25,214
Total adjustments	<u>(284,494)</u>	<u>25,164</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,426,588	857,882
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(37,761)	(68,896)
Purchase of investments	(371,168)	(258,002)
Proceeds from investment redemption	76,188	4,097
NET CASH USED IN INVESTING ACTIVITIES	(332,741)	(322,801)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on promissory note	(86,724)	(86,553)
Restricted contributions received	150,374	116,988
NET CASH PROVIDED BY FINANCING ACTIVITIES	63,650	30,435
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,157,497	565,516
CASH AND CASH EQUIVALENTS, beginning of year	<u>3,299,725</u>	<u>2,734,209</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,457,222</u>	<u>\$ 3,299,725</u>
Reconciliation of cash and cash equivalents on Statements of Cash Flows to the Statements of Financial Position:		
Cash and cash equivalents	\$ 4,335,936	\$ 3,141,307
Cash restricted by donors for long-term purposes	121,286	158,418
	<u>\$ 4,457,222</u>	<u>\$ 3,299,725</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 9,286	\$ 12,032

See notes to financial statements.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Financial Statements

Years Ended December 31, 2019 and 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 seven 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

Basis of Presentation: The financial statements of the Association are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and provide for the accrual basis of accounting. Based on the nature and/or existence of donor restrictions, the Association's financial position and activities are reported according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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 L. 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 are presented at estimated fair value in the Statements of Financial Position (Note C). Fair value is determined based upon quoted market prices in an active market. Realized gains and losses are determined on the average cost per share method. Investment income, including realized gains or losses, change in unrealized gains or losses, dividends, and interest, is included as a component of income from operations.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Financial Statements - Continued

Years Ended December 31, 2019 and 2018

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, 2019.

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. The Association reviews property for indicators of potential impairment when changes in circumstances occur. The Association believes no such impairment exists at December 31, 2019.

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 G).

Sales Revenue: The Association derives its revenues primarily from the sale of merchandise. Revenues are recognized when performance obligations are satisfied. Performance obligations are defined as transferring the merchandise sold to the customer at a point in time. The performance obligation of each transaction is deemed to occur at the time of the transaction. The Association does not have sales transactions that occur over a period of time. The Association does not receive payment for merchandise in advance, and thus does not report any deferred revenue in the accompanying Statements of Financial Position. The Association determines the transaction price for merchandise sales based on standard charges for the goods provided less any explicit price concessions. Explicit price concessions are discounts provided to customers presented at the time of sale. The Association does not consider returned merchandise to be significant based on historical experience.

Membership Revenue: The Association offers membership subscription to customers. Membership revenue is recognized when performance obligations are satisfied. Performance obligations are defined as providing the associated benefits of membership to members throughout the membership period. The membership period is typically one year in length. However, the majority of benefits provided to members are provided at the time of membership purchase. Thus, the Association recognizes revenues associated with membership at the time of membership purchase. Membership revenues were approximately \$1,031,000 and \$860,000 for the years ended December 31, 2019 and 2018, respectively, and are included within other revenue and support in the accompanying Statements of Activities and Changes in Net Assets.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Financial Statements - Continued

Years Ended December 31, 2019 and 2018

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 Statements 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 without donor restrictions 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, 2019. At December 31, 2019, tax returns filed for the previous three years are subject to examination by the Internal Revenue Service.

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, 2019 and 2018, the Association's investments are classified as Level 1 in the valuation hierarchy. At December 31, 2019 and 2018, the Association had no liabilities meeting the disclosure requirements established under the guidance of FASB ASC 820.

Recently Adopted Accounting Principles: 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. This ASU was adopted in 2019 resulting in the inclusion of the change in unrealized gains and losses in investment income. The adoption resulted in no impact on net assets.

During the year ended December 31, 2019, the Association adopted ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes previous revenue recognition guidance under U.S. GAAP. ASU 2014-09 requires the recognition of revenue when services are performed at an amount equal to what the entity expects to receive for those services. This update also requires expanded disclosure related to revenue recognition policies. Other than changes in presentation and additional disclosures, adoption of this standard did not have a significant impact on the financial statements. ASU 2014-09 has been applied retrospectively to the year ended December 31, 2018.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Financial Statements - Continued

Years Ended December 31, 2019 and 2018

Recently Issued Accounting Pronouncement: 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, 2021 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.

NOTE C--INVESTMENTS

Investments consist of the following at December 31:

	<i>Level 1</i>	
	<i>2019</i>	<i>2018</i>
Investments		
Equity mutual funds	\$ 774,485	\$ 437,370
Fixed income mutual funds	422,074	307,193
Total investments	<u>\$ 1,196,559</u>	<u>\$ 744,563</u>

Investment income consists of the following at December 31:

	<i>Without Donor Restrictions</i>
2019	
Interest and dividends	\$ 76,332
Change in net unrealized gain (loss)	138,329
Investment income, net	<u>\$ 214,661</u>
2018	
Interest and dividends	\$ 48,269
Change in net unrealized gain (loss)	(20,896)
Investment income, net	<u>\$ 27,373</u>

At December 31, 2019 and 2018, the investment portfolio had a net unrealized gain of approximately \$138,000 and a net unrealized loss of approximately \$300, respectively.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Financial Statements - Continued

Years Ended December 31, 2019 and 2018

NOTE D--INVENTORIES

Inventories consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Publications	\$ 439,179	\$ 394,445
Demo/Theme	477,760	463,017
Audio/Visual	39,318	50,462
Convenience items	5,082	8,038
Vending	4,686	3,185
Consignment	811	1,225
Miscellaneous	-	455
	<u>\$ 966,836</u>	<u>\$ 920,827</u>

NOTE E--PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land and buildings	\$ 432,348	\$ 432,348
Building improvements	1,193,226	1,193,226
Equipment	1,568,974	1,531,213
Vehicles	200,770	200,770
	<u>3,395,318</u>	<u>3,357,557</u>
Less: accumulated depreciation and amortization	(3,143,225)	(3,025,069)
	<u>\$ 252,093</u>	<u>\$ 332,488</u>

NOTE F--LINE OF CREDIT AND PROMISSORY NOTE

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

<i>Description</i>	<i>Maturities</i>	<i>Rates</i>	<i>Outstanding Balance</i>	
			<i>2019</i>	<i>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 of \$5,492 beginning June 2018.	4.90%	\$ 131,723	\$ 218,447
			<u>131,723</u>	<u>218,447</u>
	Less: current portion		(60,721)	(56,331)
			<u>\$ 71,002</u>	<u>\$ 162,116</u>

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Financial Statements - Continued

Years Ended December 31, 2019 and 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, secured by certain assets of the Association. The maturity of the note associated with the line of credit extends to September 2021. As of December 31, 2019, there was no outstanding balance related to the line of credit. See Note M.

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

<u>Year Ending December 31,</u>	
2020	\$ 60,721
2021	63,824
2022	7,178
	<u>\$ 131,723</u>

Interest expense was approximately \$9,000 and \$12,000 during the years ended December 31, 2019 and 2018, respectively, and is included in Park projects and other in the accompanying Statements of Activities and Changes in Net Assets.

NOTE G--NET ASSETS WITH DONOR RESTRICTIONS

During the years ended December 31, 2019 and 2018, the Association released \$102,027 and \$29,695, respectively, 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, net assets with donor restrictions are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Internal park programs	\$ 486,597	\$ 399,746
Sevierville Visitor Center park map exhibit	-	29,636
Active Trails program	37,858	37,858
Other purposes	21,184	30,052
	<u>\$ 545,639</u>	<u>\$ 497,292</u>

NOTE H--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

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Financial Statements - Continued

Years Ended December 31, 2019 and 2018

made contributions to the plan in the amount of 6% of the eligible participants' compensation. 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 \$78,709 and \$88,015 for the years ending December 31, 2019 and 2018, respectively, and is included in salaries and benefits on the Statements of Activities and Changes in Net Assets.

During 2019, the Association consulted legal counsel regarding delinquent filings of the Form 5500 for the plan, as well as certain operational errors within the plan. The Association has recorded a reserve of \$50,000 at December 31, 2019 related to these items, including administrative and other costs. The Association is in the process of filing a Delinquent Filer Voluntary Compliance Program (DFVCP) with the Department of Labor and a Voluntary Correction Program (VCP) with the Internal Revenue Service, which further details these matters and the Association's plan for correcting them. The Association does not expect these submissions to affect the plan's tax status. However, the ultimate outcome of these matters is unknown.

NOTE I--AVAILABILITY AND LIQUIDITY

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 4,457,222	\$ 3,299,725
Investments	1,196,559	744,563
Accounts receivable	140,033	11,548
Total financial assets	5,793,814	4,055,836
Less:		
Net assets with donor restrictions	545,639	497,292
Net assets designated by the Board	4,015,210	3,229,088
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,232,965</u>	<u>\$ 329,456</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.

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Financial Statements - Continued

Years Ended December 31, 2019 and 2018

NOTE J--COMMITMENTS AND CONTINGENCIES

Insurance: The Association maintains professional liability insurance at December 31, 2019, and intends to maintain such coverages in the future. Management is unaware of any outstanding or pending legal claims at December 31, 2019.

Concentrations: The Association's operations are concentrated in and around the Park and may be impacted by any closures mandated by the Park Service. See Note M.

NOTE K--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.

As of December 31, the following Board designations exist:

	<u>2019</u>	<u>2018</u>
Operating reserve	\$ 450,000	\$ 450,000
General reserve	-	207,266
SmartBank reserve	362,947	-
Future project reserve	1,364,026	1,337,928
Legacy investment	1,209,063	691,758
Emergency reserve	256,636	156,636
Capital expenditures reserve	100,011	115,000
Future building reserve	115,013	100,000
Palmer house project	125,500	125,500
Additional aid to park reserve	32,014	45,000
	<u>\$ 4,015,210</u>	<u>\$ 3,229,088</u>

NOTE L--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 are as follows:

GREAT SMOKY MOUNTAINS ASSOCIATION

Notes to Financial Statements - Continued

Years Ended December 31, 2019 and 2018

	<i>Aid-to-Park</i>	<i>Membership and Sales Centers</i>	<i>Administrative Expenses</i>	<i>Total</i>
2019				
Cost of sales and publications	\$ 87,264	\$ 4,571,089	\$ -	\$ 4,658,353
Salaries and benefits	1,031,889	931,445	993,819	2,957,153
Park projects and other	790,336	707,848	78,940	1,577,124
Supplies	-	19,891	47,894	67,785
Insurance	-	18,485	66,802	85,287
Professional services	-	56,224	154,702	210,926
Maintenance	-	75,284	136,177	211,461
Utilities and telephone	-	27,811	34,314	62,125
Depreciation and amortization	-	88,617	29,539	118,156
Total	\$ 1,909,489	\$ 6,496,694	\$ 1,542,187	\$ 9,948,370
2018				
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	\$ 1,799,828	\$ 5,868,262	\$ 1,544,982	\$ 9,213,072

NOTE M--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 in the December 31, 2019 financial statements. Subsequent to December 31, 2019, due to a pandemic, there has been substantial volatility in financial markets, which has resulted in declines in equity and other markets. In addition, the pandemic caused the Park to be closed for a portion of 2020, which caused the Association to close its retail stores for an extended period of time. The Association continues to monitor this volatility, but the ultimate outcome of the pandemic on financial markets and the Association is unknown.

As a preemptive measure, in June 2020, the Association re-negotiated the existing line of credit agreement in place at December 31, 2019. The limit on the line of credit was increased by \$200,000 to \$1,000,000 and the due date on the agreement was extended to June 2023. The agreement is secured by the same assets as it was previously.