



Eliada Homes, Inc. and Subsidiary

Asheville, North Carolina

Consolidated Financial Statements
and Supplementary Information

Year Ended June 30, 2022

ELIADA HOMES, INC. AND SUBSIDIARY

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ELIADA HOMES, INC. AND SUBSIDIARY

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-3
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	6-7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	9-24
SUPPLEMENTARY INFORMATION	
Consolidated Schedule of Program Expenses	25-26
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 <i>Government Auditing Standards</i>	27-28

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Eliada Homes, Inc. and Subsidiary

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Eliada Homes, Inc. (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Eliada Homes, Inc. and Subsidiary as of June 30, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Eliada Homes, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Eliada Homes, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Eliada Homes, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Eliada Homes, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of program expenses is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 January 24, 2023, on our consideration of Eliada Homes, Inc. and Subsidiary's 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 Eliada Homes, Inc. and Subsidiary's 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 Eliada Homes, Inc. and Subsidiary's internal control over financial reporting and compliance.



Asheville, North Carolina
January 24, 2023

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Financial Position

June 30, 2022

Assets

Cash and equivalents	\$ 423,249
Accounts receivable	309,039
Other receivables	14,722
Inventory	24,301
Prepaid expenses	124,455
Property held for investment	61,554
Property and equipment, net	524,540
Beneficial interest in perpetual trust	<u>222,000</u>

Total assets \$ 1,703,860

Liabilities and net assets

Accounts payable	\$ 92,994
Accrued liabilities	212,004
Deferred revenue	107,012
Long-term debt, net	372,158
Related party payables	<u>743,992</u>
Total liabilities	<u>1,528,160</u>

Net assets (deficit):

Without donor restrictions	(406,438)
With donor restrictions	<u>582,138</u>
Total net assets	<u>175,700</u>

Total liabilities and net assets \$ 1,703,860

The accompanying notes are an integral part of these consolidated financial statements.

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Activities Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue			
Medicaid, net	\$ 2,430,456	\$	\$ 2,430,456
State services, net	1,320,733		1,320,733
County services, net	116,947		116,947
Private services, net	418,178		418,178
Fundraising	134,508		134,508
Eliada Farm sales	10,430		10,430
Rental income	4,527		4,527
Miscellaneous	2,013		2,013
Total revenue	<u>4,437,792</u>		<u>4,437,792</u>
Support			
Private grants and contributions	1,138,476	165,780	1,304,256
Governmental grants	1,817,577		1,817,577
In-kind contributions	275,900		275,900
Eliada Foundation, Inc. subsidies	138,000		138,000
Total support	<u>3,369,953</u>	<u>165,780</u>	<u>3,535,733</u>
Net assets released from restrictions	<u>220,028</u>	<u>(220,028)</u>	
Total revenue and support	<u>8,027,773</u>	<u>(54,248)</u>	<u>7,973,525</u>
Expenses			
Program services	6,594,228		6,594,228
Supporting services	2,007,684		2,007,684
Total expenses	<u>8,601,912</u>		<u>8,601,912</u>
Decrease in net assets before other losses	<u>(574,139)</u>	<u>(54,248)</u>	<u>(628,387)</u>
Other losses			
Change in value of beneficial interest in perpetual trust		(41,083)	(41,083)
Loss on disposal of property and equipment	(394)		(394)
Total other losses	<u>(394)</u>	<u>(41,083)</u>	<u>(41,477)</u>
Decrease in net assets	(574,533)	(95,331)	(669,864)
Net assets at beginning of year	<u>168,095</u>	<u>677,469</u>	<u>845,564</u>
Net assets (deficit) at end of year	<u>\$ (406,438)</u>	<u>\$ 582,138</u>	<u>\$ 175,700</u>

The accompanying notes are an integral part of these consolidated financial statements.

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services					
	Residential Treatment	Day Treatment	Foster Care	Child Development Center	Community Based Services	Eliada Farms
Salaries	\$ 1,454,606	\$ 402,933	\$ 230,208	\$ 1,543,082	\$ 301,816	\$
Employee benefits	118,599	38,401	22,032	132,013	26,979	
Retirement benefits	15,467	6,375	3,455	18,204	6,054	
Payroll taxes	102,976	29,612	16,350	102,807	21,317	3,769
Supplies and cost of sales	42,072	7,899	7,122	120,471	6,889	
Food	41,945	8,850	351	129,543	3,362	
Computer technology	3,202	416	59	1,255	125	2,776
Clothing	635			889	40	
Utilities	84,314	10,254	2,841	71,797	13,282	
Insurance	72,762	14,529	6,897	58,750	19,005	3,051
Maintenance and repairs	58,443	11,159	9,475	178,776	17,305	
Telephone	7,255	1,764	2,464	5,558	1,658	
Postage	3,474	130	27	33	25	10
Travel	7,277	612	17,699	11,841	14,644	
Dues and subscriptions	233	332	3,650	125	221	
License and fees	5,072	856	1,077	3,909	1,361	1235
Student related expense	4,410	21	82	827	34,732	
Foster care payments			197,926			
Rent	99,103	20,437	3,047	68,963	19,850	
Professional fees	170,430	1,634	104,038	4,469	2,974	1,808
Conferences and meetings	14,352	3,200	2,091	7,085	2,316	
Recreation activities	1,027		46	5,265		
Promotions	199		2,032	293	111	37
Miscellaneous	3,145	357	209	1,219	331	490
Bad debt	9,123	4,203	1,189	1,682	12,598	
Depreciation	21,665	3,459	2,374	50,172	5,121	
Interest	<u>2</u>			<u>1</u>		<u>3,945</u>
Total expenses	\$ 2,341,788	\$ 567,433	\$ 636,741	\$ 2,519,029	\$ 512,116	\$ 17,121

The accompanying notes are an integral part of these consolidated financial statements.

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses (continued)
Year Ended June 30, 2022

	Total Program Expenses	Supporting Services			Total
		Management and General	Resource Development & Fundraising	Supporting Services	
Salaries	\$ 3,932,645	\$ 890,228	\$ 247,553	\$ 1,137,781	\$ 5,070,426
Employee benefits	338,024	83,828	3,726	87,554	425,578
Retirement benefits	49,555	17,353	5,907	23,260	72,815
Payroll taxes	273,062	64,252	17,970	82,222	355,284
Supplies and cost of sales	188,222	21,420	16,226	37,646	225,868
Food	184,051	50		50	184,101
Computer technology	7,833	85,096	10,613	95,709	103,542
Clothing	1,564		109	109	1,673
Utilities	182,488	7,194	15,587	22,781	205,269
Insurance	174,994	10,795	19,291	30,086	205,080
Maintenance and repairs	275,158	24,143	5,510	29,653	304,811
Telephone	18,699	3,793	245	4,038	22,737
Postage	3,699	1,539	3,043	4,582	8,281
Travel	52,073	4,647	792	5,439	57,512
Dues and subscriptions	4,561	10,380	3,763	14,143	18,704
License and fees	13,510	9,389	1,065	10,454	23,964
Student related expense	40,072		10,539	10,539	50,611
Foster care payments	197,926				197,926
Rent	211,400	27,600	7,000	34,600	246,000
Professional fees	285,353	223,982		223,982	509,335
Conferences and meetings	29,044	34,281	368	34,649	63,693
Recreation activities	6,338				6,338
Promotions	2,672	6,795	62,049	68,844	71,516
Miscellaneous	5,751	12,663	840	13,503	19,254
Bad debt	28,795				28,795
Depreciation	82,791	7,906	4,851	12,757	95,548
Interest	3,948	23,303		23,303	27,251
Total expenses	\$ 6,594,228	\$ 1,570,637	\$ 437,047	\$ 2,007,684	\$ 8,601,912

The accompanying notes are an integral part of these consolidated financial statements.

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Statement of Cash Flows Year Ended June 30, 2022

Cash flows from operating activities

Decrease in net assets	\$ (669,864)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	95,548
Bad debt expense	28,795
Amortization of discount on long-term debt	4,490
Loss on sale of property and equipment	394
Change in value of beneficial interest in perpetual trust	41,083
Related party loan forgiveness	(138,000)
Changes in working capital - sources (uses):	
Accounts receivable	579,782
Other receivables	(1,562)
Inventory	(746)
Prepaid expenses	47,199
Accounts payable	(37,996)
Accrued expenses	(30,010)
Deferred revenue	105,688
Net cash provided by operating activities	<u>24,801</u>

Cash flows from investing activities

Distributions from beneficial interest in perpetual trust	15,917
Purchase of property and equipment	<u>(71,481)</u>
Net cash used by investing activities	<u>(55,564)</u>

Cash flows from financing activities

Principal repayments on related party payables	(455,185)
Principal repayments on notes payable	<u>(2,566)</u>
Net cash used by financing activities	<u>(457,751)</u>

Decrease in cash and equivalents (488,514)

Cash and equivalents at beginning of year 911,763

Cash and equivalents at end of year \$ 423,249

Supplemental disclosure of cash flow information

Cash paid for interest \$ 22,761

The accompanying notes are an integral part of these consolidated financial statements.

ELIADA HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
June 30, 2022

Note 1 - Summary of Significant Accounting Policies

Organization

Eliada Homes, Inc. (Eliada Homes) is a North Carolina not-for-profit corporation, located in Asheville, North Carolina with a mission of helping children succeed. Eliada Homes provides a variety of services to over 600 children and youth annually. In partnership with families, Eliada Homes provides positive child and youth development programming for all ages as well as high level intervention and prevention services for children and adolescents that focus on social and emotional well-being, life skills development, career readiness, and trauma informed treatment. Eliada Homes serves children and families throughout North Carolina, with the primary service area being Western North Carolina.

Compton Enterprises, Inc., (Compton) was formed in June 2019 as a corporation and is a wholly owned subsidiary of Eliada Homes. Compton was formed as the holding company for Eliada Farms, LLC (Eliada Farms) and Compton is the sole member of Eliada Farms that was also formed in June 2019. Eliada Farms engages in hemp and other agricultural production.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Eliada Homes and Compton (collectively the Organization). All material intercompany transactions and balances have been eliminated.

Major Programs

The Organization's principal programs are comprised of:

- *Residential Treatment* - The Organization operates a level 3 cottage designed to care for students in need of this level of care that have been in higher levels of care for extended periods of time. This program partners with area agencies to return the student to the family home or step them down to a therapeutic foster care level with additional support. Typical stays average approximately six months.
- *Day Treatment* - Day treatment serves high-risk students who have a history of emotional and/or behavioral problems and need a structured treatment program in conjunction with their education. While in Day Treatment students learn ways to manage emotions, develop confidence and self-esteem, practice building positive relationships, take responsibility for their choices and actions, and appropriate classroom etiquette. Day treatment integrates behavioral, educational, and clinical components to meet the needs of each student served.

Note 1 - Summary of Significant Accounting Policies (continued)

Major Programs (continued)

- *Foster Care* - The Organization's foster care program promotes permanent family living arrangements for children through reunification, guardianship, and adoption. The Organization is a Licensed Child Placing Agency (LCPA) for family and therapeutic foster care services. These services are delivered by foster families recruited and trained by the Organization and licensed by the North Carolina Division of Social Services under the Organization's LCPA license. Therapeutic foster care provides a structured, supervised therapeutic family environment.
- *Child Development Center* - The child development center provides childcare and child development services for individuals with children ranging from newborn through Pre-K. The program utilizes targeted techniques specific for infant, toddler, and pre-k development. All child development programs are licensed by the Department of Health and Human Resources and hold five-star licenses.
- *Community Based Services* - The Organization provides a variety of other community-based outpatient therapy programs which include Eliada Students Training for Advancement (ESTA), intensive in-home services, equine assisted therapy, and the campus farm program. The Organization's ESTA program offers services for getting and maintaining employment through case management and workshops which also integrates the Organizations workforce ready housing and workforce development initiatives.
- *Eliada Farms* - Farm that specializes in hemp and other agricultural production.

Income Tax Status

Eliada Homes is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). Compton is taxed as a U.S. C Corporation.

Basis of Presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- *Net assets without donor restrictions*: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of Organization's management and Board of Directors.

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- *Net assets with donor restrictions:* Net assets subject to donor-imposed time or purpose restrictions. These restrictions limit the spending options when using these resources because the Organization has a fiduciary responsibility to follow the donors' instructions. Net assets with donor restrictions generally result from donor-restricted contributions and grants. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization, or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Support is recorded as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (that is, the donor-stipulated purpose has been fulfilled and/or time period has elapsed) are reported as net assets released from restrictions. The Organization has adopted a policy to classify donor restricted support as without donor restrictions to the extent that restrictions were met in the reporting period the support was recognized.

Measure of Operations

The consolidated statement of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing program services. Non-operating activities are limited to resources that generate return from beneficial interest in perpetual trust, loss on disposal of property and equipment, and other activities considered to be more unusual or nonrecurring in nature.

Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying value of substantially all reported assets and liabilities, other than beneficial interests in perpetual trust and long-term debt, approximates fair value due to the relatively short-term nature of the financial instruments.

The fair value of beneficial interest in perpetual trust is discussed in Note 5.

The carrying value of long-term debt approximates fair value due to the market-based interest rates charged at the time of borrowing. Interest-free loans contain an implied interest rate comparable to market rates.

Note 1 - Summary of Significant Accounting Policies (continued)

Cash and Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts and Other Receivables

Accounts receivable relate to providing services to customers. Collection of these amounts is the Organization's primary source of cash and is critical to operating performance. Accounts receivable are recorded at net realizable value based on certain assumptions determined by each payor. For third-party payors, the net realizable value is generally estimated contractual reimbursement percentages, which are based on current contract prices or historical paid claims data. For self-pay accounts receivable, the net realizable value is determined using estimates of historical collection experience and age of outstanding balances.

Other receivables consist primarily of sales tax receivables.

All account receivables are considered by management to be fully collectible and therefore no allowance for uncollectible accounts has been recorded. Receivables are considered impaired if full payment is not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible receivables when management determines collection is unlikely.

Inventory

Inventory consists of food products and supplies held for program use and are valued at the lower of cost or net realizable value as determined by the first-in, first out (FIFO) method.

Investments

Investments are recorded at fair market value. Both unrealized gains and losses from the fluctuation of market value and realized gains and losses from the sale of investments are reflected in the consolidated statement of activities.

Investment Income and Gains

Investment income and gains are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Fair Value Measurements and Disclosures

The Organization applies U.S. GAAP authoritative guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements.

Note 1 - Summary of Significant Accounting Policies (continued)

Fair Value Measurements and Disclosures (continued)

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets and liabilities within the hierarchy are based on the lowest (or least observable) input that is significant to the measurement. The Organization's assessment of the significance of an input requires judgment, which may affect the valuation and classification within the fair value hierarchy.

Property and Equipment

Additions to property and equipment, if purchased, are recorded at cost. Major renewals and replacements are capitalized. Expenditures for repairs and maintenance that do not improve or extend the life of the asset are expensed. The Organization has adopted an accounting policy to capitalize all property and equipment with a cost greater than \$5,000 and estimated useful life extending beyond one year. Depreciation is computed using the straight-line method over the estimated useful life of the asset, ranging from three to twenty-five years.

Property held for investment

Property held for investment represents land donated to the Organization during the year ended June 30, 2012. This land was originally recorded at its estimated fair value on the date of donation and is evaluated annually for impairment. Carrying value is adjusted to estimated fair value when impairment is determined to have occurred. No impairment was considered to have occurred during the year ended June 30, 2022.

Note 1 - Summary of Significant Accounting Policies (continued)

Donated Property and Equipment

Donations of property and equipment are recorded as in-kind contributions at the estimated fair value at the date of the gift. The Organization reports gifts of property and equipment as in-kind contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are recorded as net assets with donor restrictions until such assets are acquired or placed in service.

Donated Assets

Donated marketable securities are recorded as contributions at their estimated fair value at the date of donation. Donated materials and equipment are reflected as in-kind contributions at their estimated fair value at the date of donation. Noncash donated assets are described in Note 9.

Donated Services

Donated services are recognized as in-kind contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, and are performed by people with those skills, and would otherwise be purchased by the Organization. Donated services are described in Note 9.

Revenue Recognition

Net service revenue is recorded at the transaction price estimated to reflect the total consideration due from customers and third-party payors in exchange for providing services. These services are considered to be a single performance obligation and have a duration of less than one year. Revenues are recorded as these services are provided. Net service revenue includes amounts estimated by management to be reimbursable by Medicaid under prospective payment systems and provisions of cost-reimbursement and other payment methods. In addition, the Organization is reimbursed by governmental agencies for approved services provided using a variety of payment methodologies. Amounts received for customer services covered by these programs are generally less than the standard billing rates. The transaction price, which involves significant estimates, is determined based on third-party contractual arrangements as well as direct arrangements with customers, with a reduction recorded for estimated price concessions and discounts. Payments received in advance of services being provided are recorded as deferred revenue in the consolidated statement of financial position.

Contributions are recognized when cash, securities, other assets, or an unconditional promise to give are received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return of the asset or right of release of the obligation - are not recognized until the conditions on which they depend have been met.

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the consolidated statement of financial position. The Organization received \$96,942 in advance payments on cost-reimbursable grants that have not been recognized as of June 30, 2022. This amount will be included in deferred revenue until qualifying expenditures have been incurred or refunded to the grantor as unexpended grant funding.

The Organization also generates revenue from the sale of products. Those sales contain a single performance obligation and revenue is recognized at a single point in time when ownership, risks, and rewards transfer to the customers.

Advertising

The Organization uses advertising to promote various programs. Advertising costs are not expected to extend beyond the current period and are expensed as incurred. Advertising expense for the year ended June 30, 2022, was \$11,964.

Functional Allocation of Expenses

The costs of providing program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Certain categories of expenses are attributable to programs and support. All expenses except for foster care payments, recreation activities, and bad debt are allocated on the basis of a combination of estimates of time and effort and other statistical means in which the programs are operated. Foster care payments, recreation activities, and bad debt are directly attributable to program services.

Newly Adopted Accounting Pronouncements

During the year ended June 30, 2022, the Organization adopted the requirements of the following standards set by the Financial Accounting Standards Board (FASB). The implementation of each of these standards did not materially impact the Organization's consolidated financial statements.

- Accounting Standards Update No. 2018-15, *Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.

Note 1 - Summary of Significant Accounting Policies (continued)

Newly Adopted Accounting Pronouncements (continued)

- Accounting Standards Update No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 clarifies and expands the presentation and disclosure requirements of contributed nonfinancial assets for nonprofit entities for the purpose of enhancing transparency of such contributions received. These additional note disclosures are included in Note 9, In-kind Contributions.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. Under the new standard, lessees will recognize a right-of-use asset and lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments. For statement of activity purposes, leases continue to be classified as either operating or finance. Operating leases will result in straight-line expense, while finance leases will result in accelerated expense recognition, comparable to current capital leases. Classification will be based on criteria similar to those applied to current lease accounting. Additional disclosures will be required to provide details of revenue and expense recognized and expected to be recognized from existing agreements. The new standard will be effective beginning July 1, 2022. The Organization is currently evaluating the effect this ASU will have on its consolidated financial statements.

Note 2 - Net Assets

Net assets are described as follows:

At June 30	2022
Net assets without donor restrictions:	
Undesignated (deficit)	\$ (406,438)
Net assets with donor restrictions:	
Subject to expenditure for specified purpose or period:	
ESTA Vocational/transitional living needs	8,074
Eliada farms	5,000
Other program needs	152,706
Passage of time	<u>194,358</u>
Total subject to expenditure for specified purpose or period	360,138
Not subject to spending policy or appropriation:	
Beneficial interest in perpetual trust	<u>222,000</u>
Net assets with donor restrictions	<u>582,138</u>
Total net assets	\$ 175,700

Note 3 - Liquidity and Availability of Financial Assets

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due as part of its liquidity management plan. In addition, the Organization has planned for a balanced budget and anticipates covering its general expenditures by collecting revenues from its program and fundraising activities. Also, in the event of an unanticipated liquidity need, the Organization could obtain monies from its supporting organization, Eliada Foundation, Inc. (the Foundation).

The following reflects the liquidity and availability of the Organization's financial assets:

<u>At June 30</u>	<u>2022</u>
Financial assets:	
Cash and equivalents	\$ 423,249
Accounts receivable	309,039
Other receivables	14,849
Beneficial interest in endowment funds	<u>222,000</u>
Total financial assets	969,137
Amounts not available for general expenditure:	
Net assets with donor restrictions	<u>(582,138)</u>
Net financial assets available to meet cash needs <u>for general expenditures within one year</u>	<u>\$ 386,999</u>

Note 4 - Contract Assets and Liabilities

Accounts receivable and beneficial interest in perpetual trust represent the Organization's contract assets with an unconditional right to receive consideration from customers. Accounts receivable are recorded at invoiced amounts or amounts expected to be receivable based on contractual terms without conditions.

The Organization is an irrevocable beneficiary in a perpetual trust held and administered by a third-party trustee. By direction of the grantor of the trust, the principle of the trust is invested in perpetuity. The Organization is entitled to a portion of the investment income. The beneficial interest in perpetual trust is recorded at the fair value of the Organization's interest in the underlying assets.

The following table provides information about contract assets:

<u>At June 30</u>	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 309,039	\$ 917,616
Beneficial interest in perpetual trust	<u>222,000</u>	<u>279,000</u>
<u>Total contract assets</u>	<u>\$ 531,039</u>	<u>\$ 1,196,616</u>

Note 4 - Contract Assets and Liabilities (continued)

Contract liabilities are recorded when a customer pays consideration, or the Organization has a right to an amount of consideration that is unconditional, before the transfer of a good or performance of a service to the customer. Thus, the Organization has an obligation to transfer the good or service to the customer at a future date. Contract liabilities are reported as deferred revenue in the accompanying statement of financial position and are comprised of the following:

- Unearned fees, representing advance payments from customers and agencies for childcare and foster care services.
- Conditional grants, representing advance payments received from grantors prior to incurring expenditures in compliance with specific contract or grant provisions.

Significant changes in contract liabilities from contracts with customers are as follows:

<u>At June 30</u>	<u>2022</u>
Unearned fees, beginning of year	\$ 1,324
Revenue recognized during the fiscal year that was included in unearned fees	(56,766)
Increase in unearned fees due to cash received during year	<u>65,512</u>
Unearned fees, end of year	<u>10,070</u>
Conditional grants, beginning of year	
Increase in conditional grants due to cash received during year	<u>96,942</u>
Conditional grants, end of year	<u>96,942</u>
<u>Total contract liabilities</u>	<u>\$ 107,012</u>

Note 5 - Fair Value Measurements

Beneficial interest in perpetual trust is reported in the accompanying financial statements at estimated fair value in accordance with the fair value hierarchy. The following is a description of the valuation methodologies used for assets measured at fair value:

Cash and Money Market Funds

Cash and money market funds are valued using observable market data and are categorized as Level 1 to the degree that they can be valued based on quoted market prices in active markets.

Equity Investments

Equity investments consist of daily traded mutual funds and exchange-traded funds. These investments are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1, with no valuation adjustments applied.

Note 5 - Fair Value Measurements (continued)

The following tables sets forth estimated fair values of financial instruments:

<u>At June 30, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market funds	\$ 8,205	\$	\$	\$ 8,205
Equity investments:				
Exchange-traded funds	47,084			47,084
Mutual funds - equity	111,997			111,997
Mutual funds - bonds	<u>54,714</u>	<u></u>	<u></u>	<u>54,714</u>
Total beneficial interest in perpetual trust	\$ 222,000	\$	\$	\$ 222,000

Note 6 - Property and Equipment

Property and equipment consist of the following:

<u>At June 30</u>	<u>2022</u>
Land	\$ 75,000
Buildings and improvements	235,182
Leasehold improvements	279,295
Machinery and equipment	347,716
Office equipment	212,162
Furniture and fixtures	153,778
Vehicles	<u>94,709</u>
	1,397,842
Less, accumulated depreciation	<u>(873,302)</u>
<u>Property and equipment</u>	<u>\$ 524,540</u>

Depreciation expense for the year ended June 30, 2022, is \$95,548.

Note 7- Accrued Liabilities

Accrued liabilities are described as follows:

<u>At June 30</u>	<u>2022</u>
Accrued payroll	\$ 148,931
Accrued compensated absences	<u>63,073</u>
<u>Accrued liabilities</u>	<u>\$ 212,004</u>

Note 8 - Long-term Debt

Long-term debt is described as follows:

<u>At June 30</u>	<u>2022</u>
Noninterest bearing note payable due in 360 monthly installments of \$214 through March 2030, implied interest rate of 5%, secured by property held by the Foundation	\$ 19,647
Noninterest bearing note payable due with a balloon payment due in July 2047, implied interest rate of 5%, secured by property held by the Foundation	70,407
Noninterest bearing note payable due with a balloon payment due in October 2047, implied interest rate of 5%, secured by property held by the Foundation	200,000
Noninterest bearing note payable due with a balloon payment upon demand, implied interest rate of 4%, secured by property held by the Foundation	<u>279,650</u>
Total long-term debt	569,704
Less, unearned discount on long-term debt	<u>(197,546)</u>
Total long-term debt, net of unearned discount	372,158
Less, current maturities	<u>(281,442)</u>
<u>Long-term debt, net of current maturities</u>	<u>\$ 90,716</u>

A promissory note was signed in June 2012 in the face amount of \$279,650, with no stated interest, that called for a balloon payment of the principal amount on June 30, 2017. In June 2017, this loan was verbally extended for an indefinite period as alternate repayment options are considered. All principal related to this note is shown as currently due as of June 30, 2022, until terms are formalized.

Amortization of the discount on long-term debt is reported in the consolidated statement of functional expenses as interest expense. Principal maturities on long-term debt are as follows:

<u>Years Ending June 30</u>	
2023	\$ 282,216
2024	2,566
2025	2,566
2026	2,566
2027	2,566
Thereafter	<u>277,224</u>
<u>Principal payments on long-term debt</u>	<u>\$ 569,704</u>

Note 9 - In-kind Contributions

In-kind gifts are acknowledged for the furtherance of the various programs and mission of the Organization. Volunteers also donated a significant amount of time to the Organization's operations and program services throughout the fiscal year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

In-kind contributions are summarized as follows:

	<u>Fair Value</u>	<u>Usage in Program</u>	<u>Donor Restriction</u>
Building space	\$ 246,000	Allocated to programs & support	None
Professional services	28,800	Allocated to programs & support	None
Supplies	<u>1,100</u>	Allocated to programs & support	None
Total contributions of nonfinancial assets	<u>\$ 275,900</u>		

Fair valuation techniques - The fair value of the donated building space is based on estimated fair market value at date of receipt. Donated professional services are valued by the donor based on standard billing rates for the underlying services provided. All other in-kind contributions are valued at the donor provided amount, price that would be paid to purchase a comparable item, or current sales price of the item as sold by the donating vendor.

Note 10 - Defined Contribution Plan

The Organization participates in a 403(b) defined contribution retirement plan (the Plan). Employees who work at least 20 hours per week are eligible to participate in the Plan after three months of service. The Organization has the option to make discretionary matching contributions to the Plan. The discretionary matching contribution rate was 100% of the employees' elective deferral up to three percent during the year ended June 30, 2022. Employer contributions to the Plan become vested after three years of service using a graded scale. The Organization contributed \$72,815 to the Plan during the year ended June 30, 2022.

Effective October 2021, the Plan was amended reducing the length of service requirement from one year of service to three months of service. Additionally, the employer contribution vesting period was reduced from five years of service to three years of service using a graded scale.

Note 11 - Commitments and Contingencies

Lease Commitments

The Organization leases equipment and building space under non-cancelable operating lease agreements. The leases require various monthly payments and expire through March 2027. Total rent expense for the year ended June 30, 2022, was \$278,488. The future minimum obligations under all operating leases are as follows:

<u>Years Ending June 30</u>	
2023	\$ 4,815
2024	3,153
2025	3,153
2026	2,366
2027	
<u>Total minimum lease payments</u>	<u>\$ 13,487</u>

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and volunteers; and natural disasters. The Organization carries commercial insurance coverage for risks of loss.

Government Assisted Programs

The Organization has received proceeds from governmental agencies. Periodic audits of these grants and third-party reimbursements are required and certain costs may be questioned as not being appropriate expenditures under the agreements. Such audits could result in the refund or reimbursement to the grantor or third-party agencies. Management believes that refunds or reimbursements, should any be determined, would be immaterial. No provisions have been made in the accompanying consolidated financial statements for the repayment of any grant monies or third-party reimbursements.

Note 12 - Concentrations of Credit Risk

The Organization maintains its cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000. The uninsured cash balance at June 30, 2022, was \$200,059.

The Organization's beneficial interest in perpetual trust is exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these investments and the level of uncertainty related to changes in the fair value of the beneficial interest in perpetual trust, it is at least reasonably possible that changes in the various risk factors could occur in the near term and materially affect the Organization's financial position.

Note 12 - Concentrations of Credit Risk (continued)

Concentrations of Revenue

Concentrations of revenue exist when revenue from a single source equals 10% or more of the Organization's total revenue. Revenues from two such payors totaled \$2,464,314 and \$829,637 for the year ended June 30, 2022. Accounts receivable from these payors at June 30, 2022, was \$137,116 and \$24,134, respectively.

Note 13 - Related Party Transactions

Eliada Foundation, Inc (Foundation) was formed in June 2004 as a supporting organization of Eliada Homes. The Foundation is governed by a separate board of trustees of the Organization that are charged with the management of investment funds, securing funding for capital expenditures, safeguarding assets, and granting support to the Organization when needed. Due to the Organization not having control over the Foundation, consolidation is not required.

The Foundation grants operational support to the Organization on an as needed basis by providing resources to the Organization to respond to the changing needs of the service environment. The Organization pays interest to the Foundation at 2% on all advanced funds. The Organization paid \$18,244 in interest expense to the Foundation under this arrangement during the year ended June 30, 2022. Outstanding payables due to the Foundation were \$743,992 as of June 30, 2022. The Foundation also provided operating subsidies to the Organization totaling \$138,000 during the year ended June 30, 2022, that were received as forgiveness of the payable balance due to the Foundation.

The Foundation provides the use of property and facilities to the Organization rent free. Accordingly, an in-kind contribution and rent expense of \$212,700 is recognized on the accompanying statement of activities for the year ended June 30, 2022, for the estimated fair rental value of the property. Additionally, the Foundation has pledged property as collateral for long-term debt held by the Organization totaling \$372,158 as of June 30, 2022, as described in Note 8.

Note 14 - Income Taxes

Uncertain Tax Positions

Eliada Homes is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions material to the consolidated financial statements.

Open Tax Years

Eliada Homes' Return of Organization Exempt From Income Tax (Form 990) for the years ended June 30, 2021, 2020, and 2019, are subject to examination by the IRS, generally for three years after they were filed. Compton's U.S. Corporation Income Tax Return (Form 1120) for the years ended June 30, 2021, 2020, and 2019, are open for examination by the IRS.

Note 15 - Coronavirus Pandemic Impact

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused unprecedented business and economic disruption through mandated closings of certain businesses and industries.

The Organization has received increased governmental revenues to respond and adapt to operations of the Organization. Government grants received as a result of COVID-19 for the year ended June 30, 2022, consist of \$525,978 in stabilization grant funding, \$105,900 COVID-19 related Child Care and Development Block Grant funding, \$53,062 in COVID-19 related Emergency Solutions Grant funding, and \$43,890 in Provider Relief Funds.

The extent of the impact of COVID-19 will depend on certain developments, including the duration and spread of the outbreak. At this point, it is unclear to what extent COVID-19 will impact the Organization's financial condition or results of operations.

Note 16 - Subsequent Events

Management has evaluated subsequent events through January 24, 2023, which is the date the consolidated financial statements were available to be issued.

In November 2022, the Organization received an individual donor contribution of \$571,173.

In January 2023, the Organization received an individual donor contribution of \$147,079.

In January 2023, the Foundation entered into a construction financing agreement for up to \$400,000 with a current maturity of March 2025 for renovations of a building that the Organization uses. The Organization is listed as a guarantor on the agreement.

SUPPLEMENTARY INFORMATION

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Schedule of Program Expenses
Year Ended June 30, 2022

	Residential Treatment					Eliada Farms
	Cummings Cottage	Lions Cottage	Green Cottage	Reuter Cottage	Day Treatment	
Salaries	\$ 86,435	\$ 244,106	\$	\$ 1,124,065	\$ 402,933	\$ 230,208
Employee benefits	7,242	18,323		93,034	38,401	22,032
Retirement benefits	646	1,667		13,154	6,375	3,455
Payroll taxes	6,197	15,859		80,920	29,612	16,350
Supplies and cost of sales	5,005	5,455	3,322	28,290	7,899	7,122
Food	4,574	8,103		29,268	8,850	351
Computer technology	243	540		2,419	416	59
Clothing		145		490		
Utilities	8,007	14,595		61,712	10,254	2,841
Insurance	5,867	9,678		57,217	14,529	6,897
Maintenance and repairs	14,391	6,164	41	37,847	11,159	9,475
Telephone	428	934		5,893	1,764	2,464
Postage	6	1,726		1,742	130	27
Travel	303	744		6,230	612	17,699
Dues and subscriptions	10	22		201	332	3,650
License and fees	557	173		4,342	856	1,077
Student related expense	102	499		3,809	21	82
Foster care payments						197,926
Rent	14,600	15,200		69,303	20,437	3,047
Professional fees	14,797	49,980		105,653	1,634	104,038
Conferences and meetings	974	1,404		11,974	3,200	2,091
Recreation activities	3	44		980		46
Promotions				199		2,032
Miscellaneous	28	96		3,021	357	209
Bad Debts	1,626	2,913		4,584	4,203	1,189
Depreciation	1,187	4,190		16,288	3,459	2,374
Interest				2		
Total expenses	\$ 173,228	\$ 402,560	\$ 3,363	\$ 1,762,637	\$ 567,433	\$ 636,741
						\$ 17,121

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Schedule of Program Expenses (continued)
Year Ended June 30, 2022

	Child Development Center			Community Based Services				Total Program Expenses
	Daycare Preschool	After School School Age	Summer Camp	Vocational Program ESTA	Equine Therapy	Outpatient Department	Total Program Expenses	
Salaries	\$ 1,414,947	\$ 89,711	\$ 38,424	\$ 150,138	\$ 24,871	\$ 126,807	\$ 3,932,645	
Employee benefits	122,604	6,928	2,481	11,617	3,029	12,333	338,024	
Retirement benefits	17,672	439	93	3,551	691	1,812	49,555	
Payroll taxes	94,026	5,898	2,883	10,819	1,818	8,680	273,062	
Supplies and cost of sales	109,760	6,962	3,749	4,354	698	1,837	188,222	
Food	117,046	8,428	4,069	3,362			184,051	
Computer technology	823	342	90	68	1	56	7,833	
Clothing	95	794		40			1,564	
Utilities	65,204	4,805	1,788	12,298	215	769	182,488	
Insurance	46,804	9,599	2,347	16,926	460	1,619	174,994	
Maintenance and repairs	158,031	18,574	2,171	11,522	966	4,817	275,158	
Telephone	4,583	923	52	1,169	25	464	18,699	
Postage	33			25			3,699	
Travel	2,283	3,747	5,811	3,204	86	11,354	52,073	
Dues and subscriptions	85	40			221		4,561	
License and fees	3,306	196	407	1,130	31	200	13,510	
Student related expense	441	47	339	34,732			40,072	
Foster care payments							197,926	
Rent	60,595	7,772	596	15,292	113	4,445	211,400	
Professional fees	3,990	428	51	239	1,937	798	285,353	
Conferences and meetings	6,228	697	160	151	168	1,997	29,044	
Recreation activities	71		5,194				6,338	
Promotions			293	111			2,672	
Miscellaneous	1,097	120	2	309	4	18	5,751	
Bad Debts	1,102	580			7,047	5,551	28,795	
Depreciation	41,808	7,774	590	4,747	75	299	82,791	
Interest	1						3,948	
Total expenses	\$ 2,272,635	\$ 174,010	\$ 72,384	\$ 285,804	\$ 42,456	\$ 183,856	\$ 6,594,228	

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 *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Eliada Homes, Inc. and Subsidiary

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 consolidated financial statements of Eliada Homes, Inc. (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Eliada Homes, Inc. and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Eliada Homes, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Eliada Homes, Inc. and Subsidiary's 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 consolidated 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Board of Trustees
Eliada Homes, Inc. and Subsidiary

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eliada Homes, Inc. and Subsidiary's consolidated 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 consolidated 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



Asheville, North Carolina
January 24, 2023