



Eliada Homes, Inc. and Subsidiary

Asheville, North Carolina

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2023 and 2022

ELIADA HOMES, INC. AND SUBSIDIARY

OFFICERS

Eric Edgerton
Jackie De La Cruz
Sean Kerschen
Elaine Potter
Brian Lawler

Chair
Vice-Chair
Treasurer
Secretary
Immediate Past Chair

BOARD OF TRUSTEES

Perry Bartsch, Jr.
Jackie De La Cruz
Eric Edgerton
Sean Kerschen
Brian Lawler

Jean Bauer McGuire
Kay Loveland, Ph.D.
Nancy Frady Moore
Elaine Potter
Heather Thompson Rainey
Elizabeth Rand

ELIADA HOMES, INC. AND SUBSIDIARY

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-3
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	4
Consolidated Statement of Activities - 2023	5
Consolidated Statement of Activities - 2022	6
Consolidated Statement of Functional Expenses - 2023	7-8
Consolidated Statement of Functional Expenses - 2022	9-10
Consolidated Statements of Cash Flows	11
Notes to Consolidated Financial Statements	12-31
SUPPLEMENTATRY INFORMATION	
Consolidated Schedule of Program Expenses	32-33
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>	34-35

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 statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 November 17, 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.

CARTER, P.C.

Asheville, North Carolina
November 17, 2023

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and equivalents	\$ 274,790	\$ 423,249
Accounts receivable, net	276,764	309,039
Other receivables	19,081	14,722
Related party receivable	51,045	
Inventory	14,352	24,301
Prepaid expenses	93,502	124,455
Promise to give	186,696	
Operating lease right-of-use asset	41,105	
Property held for investment	61,554	61,554
Property and equipment, net	557,774	524,540
Beneficial interest in perpetual trust	<u>230,952</u>	<u>222,000</u>
Total assets	<u>\$ 1,807,615</u>	<u>\$ 1,703,860</u>
Liabilities and net assets		
Accounts payable	\$ 130,810	\$ 92,994
Accrued liabilities	252,553	212,004
Deferred revenue	322,704	107,012
Operating lease liability, net	41,105	
Long-term debt, net	374,177	372,158
Related party payables	<u>39,344</u>	<u>743,992</u>
Total liabilities	<u>1,160,693</u>	<u>1,528,160</u>
Net assets (deficit):		
Without donor restrictions	28,934	(406,438)
With donor restrictions	<u>617,988</u>	<u>582,138</u>
Total net assets	<u>646,922</u>	<u>175,700</u>
Total liabilities and net assets	<u>\$ 1,807,615</u>	<u>\$ 1,703,860</u>

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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Medicaid, net	\$ 2,850,569	\$	\$ 2,850,569
State services, net	1,292,961		1,292,961
County services, net	93,261		93,261
Private services, net	570,438		570,438
Fundraising	199,439		199,439
Eliada Farm sales	132		132
Rental income	10,028		10,028
Miscellaneous	<u>1,147</u>		<u>1,147</u>
Total revenue	<u>5,017,975</u>		<u>5,017,975</u>
Support			
Private grants and contributions	1,478,150		1,478,150
Governmental grants	1,697,329		1,697,329
In-kind contributions	413,613	186,696	600,309
Eliada Foundation, Inc. subsidies	<u>138,000</u>		<u>138,000</u>
Total support	<u>3,727,092</u>	<u>186,696</u>	<u>3,913,788</u>
Net assets released from restrictions	<u>173,003</u>	<u>(173,003)</u>	
Total revenue and support	<u>8,918,070</u>	<u>13,693</u>	<u>8,931,763</u>
Expenses			
Program services	6,434,733		6,434,733
Supporting services	<u>2,037,601</u>		<u>2,037,601</u>
Total expenses	<u>8,472,334</u>		<u>8,472,334</u>
Increase in net assets before other gains (losses)	<u>445,736</u>	<u>13,693</u>	<u>459,429</u>
Other gains (losses)			
Change in value of beneficial interest in perpetual trust		22,157	22,157
Loss on discontinued operations	(7,276)		(7,276)
Loss on disposal of property and equipment	<u>(3,088)</u>		<u>(3,088)</u>
Total other gains (losses)	<u>(10,364)</u>	<u>22,157</u>	<u>11,793</u>
Increase in net assets	435,372	35,850	471,222
Net assets (deficit) at beginning of year	<u>(406,438)</u>	<u>582,138</u>	<u>175,700</u>
Net assets at end of year	<u>\$ 28,934</u>	<u>\$ 617,988</u>	<u>\$ 646,922</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
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, 2023

	Program Services					
	Residential Treatment	Day Treatment	Foster Care	Child Development Center	Community Based Services	Eliada Farms
Salaries	\$ 1,040,721	\$ 396,618	\$ 188,634	\$ 1,688,540	\$ 394,980	\$
Employee benefits	82,255	30,013	20,119	142,347	38,131	
Retirement benefits	15,231	7,516	3,288	23,164	10,482	
Payroll taxes	77,993	29,374	13,589	126,734	28,562	
Supplies and cost of sales	32,811	7,398	7,329	105,395	39,276	(266)
Food	38,086	13,196		173,788	25,430	
Computer technology	2,257	103	72	1,068	3,058	114
Clothing	1,471		1,225			
Utilities	83,173	11,129	1,103	76,783	15,152	
Insurance	64,331	13,564	4,396	60,990	17,664	
Maintenance and repairs	40,908	11,761	2,409	153,953	18,613	
Telephone	5,687	1,511	2,238	5,169	3,386	
Postage	26	26	46	59	5	
Travel	3,080	580	13,368	13,237	16,042	
Dues and subscriptions	257	241	700	100	1,800	
License and fees	12,445	905	282	4,842	1,785	30
Student related expense	12,286	3,650	10,214	52,132	35,387	
Foster care payments			241,626			
Rent	86,990	20,595	2,438	106,441	20,367	
Professional fees	172,477	1,657	24,525	2,863	5,344	1,000
Conferences and meetings	6,833	1,519	1,201	7,948	1,934	
Recreation activities	692	11	968	6,542		
Promotions			6,226			5,883
Miscellaneous	726	6,172	25,937	1,708	185	195
Bad debt	1,263		7,025	7,378	822	
Depreciation	13,123	3,953	2,806	41,808	6,017	
Interest	<u>7</u>	<u>2</u>	<u>1</u>	<u>10</u>	<u>2</u>	<u>1,966</u>
Total expenses	<u>\$ 1,795,129</u>	<u>\$ 561,494</u>	<u>\$ 581,765</u>	<u>\$ 2,802,999</u>	<u>\$ 684,424</u>	<u>\$ 8,922</u>

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, 2023

	Total	Supporting Services			
	Program	Management	Resource	Total	
	Expenses	and General	Development & Fundraising	Supporting Services	Total
Salaries	\$ 3,709,493	\$ 926,463	\$ 247,121	\$ 1,173,584	\$ 4,883,077
Employee benefits	312,865	129,069	16,000	145,069	457,934
Retirement benefits	59,681	20,768	5,210	25,978	85,659
Payroll taxes	276,252	66,371	17,795	84,166	360,418
Supplies and cost of sales	191,943	17,667	31,326	48,993	240,936
Food	250,500				250,500
Computer technology	6,672	87,628	10,296	97,924	104,596
Clothing	2,696				2,696
Utilities	187,340	27,999	15,023	43,022	230,362
Insurance	160,945	10,299	18,451	28,750	189,695
Maintenance and repairs	227,644	30,403	13,969	44,372	272,016
Telephone	17,991	4,145	610	4,755	22,746
Postage	162	1,716	4,028	5,744	5,906
Travel	46,307	5,896	1,982	7,878	54,185
Dues and subscriptions	3,098	9,919	4,056	13,975	17,073
License and fees	20,289	5,075	1,110	6,185	26,474
Student related expense	113,669		11,678	11,678	125,347
Foster care payments	241,626				241,626
Rent	236,831	27,600	2,744	30,344	267,175
Professional fees	207,866	85,194	2,820	88,014	295,880
Conferences and meetings	19,435	33,948	836	34,784	54,219
Recreation activities	8,213				8,213
Promotions	12,109	27,517	64,001	91,518	103,627
Miscellaneous	34,923	8,399	823	9,222	44,145
Bad debt	16,488		125	125	16,613
Depreciation	67,707	20,475	8,698	29,173	96,880
Interest	1,988	12,348		12,348	14,336
Total expenses	<u>\$ 6,434,733</u>	<u>\$ 1,558,899</u>	<u>\$ 478,702</u>	<u>\$ 2,037,601</u>	<u>\$ 8,472,334</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	
Supplies and cost of sales	42,072	7,899	7,122	120,471	6,889	3,769
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></u>	<u></u>	<u>1</u>	<u></u>	<u>3,945</u>
Total expenses	<u>\$ 2,341,788</u>	<u>\$ 567,433</u>	<u>\$ 636,741</u>	<u>\$ 2,519,029</u>	<u>\$ 512,116</u>	<u>\$ 17,121</u>

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

		Supporting Services			
	Total Program Expenses	Management and General	Resource Development & Fundraising	Total Supporting Services	Total
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	<u>3,948</u>	<u>23,303</u>		<u>23,303</u>	<u>27,251</u>
Total expenses	<u>\$ 6,594,228</u>	<u>\$ 1,570,637</u>	<u>\$ 437,047</u>	<u>\$ 2,007,684</u>	<u>\$ 8,601,912</u>

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

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 471,222	\$ (669,864)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	96,880	95,548
Bad debt expense	16,613	28,795
Amortization of operating lease right-of-use asset	8,029	
Amortization of discount on long-term debt	4,585	4,490
Loss on disposal of property and equipment	3,088	394
Change in value of beneficial interest in perpetual trust	(22,157)	41,083
Related party loan forgiveness	(138,000)	(138,000)
Loss on discontinued operations	7,276	
Changes in working capital - sources (uses):		
Accounts receivable	15,662	579,782
Other receivables	(4,359)	(1,562)
Related party receivable	(51,045)	
Inventory	2,673	(746)
Prepaid expenses	30,953	47,199
Promise to give	(186,969)	
Accounts payable	37,816	(37,996)
Accrued liabilities	40,549	(30,010)
Deferred revenue	215,692	105,688
Operating lease liability	(8,029)	
Net cash provided by operating activities	<u>540,752</u>	<u>24,801</u>
Cash flows from investing activities		
Distributions from beneficial interest in perpetual trust	13,205	15,917
Purchase of property and equipment	(133,202)	(71,481)
Net cash used by investing activities	<u>(119,997)</u>	<u>(55,564)</u>
Cash flows from financing activities		
Principal repayments on related party payables	(566,648)	(455,185)
Principal repayments on notes payable	(2,566)	(2,566)
Net cash used by financing activities	<u>(569,214)</u>	<u>(457,751)</u>
Decrease in cash and equivalents	(148,459)	(488,514)
Cash and equivalents at beginning of year	<u>423,249</u>	<u>911,763</u>
Cash and equivalents at end of year	<u>\$ 274,790</u>	<u>\$ 423,249</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 9,751</u>	<u>\$ 22,761</u>
Schedule of noncash investing and financing activities		
Operating lease right-of-use asset obtained in exchange for operating lease liability	<u>\$ 49,133</u>	<u>\$</u>

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

ELIADA HOMES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements June 30, 2023 and 2022

Note 1 - Nature of Organization and 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 engaged in hemp and other agricultural production. Eliada Farms ceased operations on June 30, 2023.

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 - Nature of Organization and 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 - Nature of Organization and 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 discontinued operations, 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 accounts receivable, promise to give, operating lease right-of-use asset, beneficial interests in perpetual trust, operating lease liability, and long-term debt, approximates fair value due to the relatively short-term nature of the financial instruments.

Amounts recognized for accounts receivable approximates fair value due to the allowance for doubtful accounts applied to outstanding balances.

The amount recognized for promise to give approximates fair value due to the net present value adjustment applied to the outstanding balance.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

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

Amounts reported for operating lease right-of-use asset and operating lease liability approximate fair value due to present value adjustments determined by the Organization's incremental borrowing rate.

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.

Cash and Equivalents

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

Accounts Receivable

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. In reviewing aged receivables, management considers their knowledge of customers, historical losses, and current economic conditions in establishing the allowance for doubtful accounts. The Organization writes-off accounts receivables when they become uncollectable, and payments subsequently received on such receivables are credited back to the allowance account in the period the payment is received.

Promises to Give

Conditional promises to give are not recognized in the consolidated financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Amortization of the discount is included in private grants and contributions. Promises to give are considered by management to be fully collectible and therefore no provision for uncollectible promises to give has been recorded. It is the Organization's policy to charge off uncollectible promises to give when management determines collection is unlikely.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Other Receivables

Other receivables consist primarily of sales tax receivables. All other receivables are considered by management to be fully collectible and therefore no allowance for uncollectible accounts has been recorded.

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 statements 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. 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.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurements and Disclosures (continued)

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 years ended June 30, 2023 and 2022.

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 10.

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 10.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

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 statements 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.

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 statements of financial position. The Organization received \$310,377 and \$96,942 in advance payments on cost-reimbursable grants that had not been recognized as of June 30, 2023 and 2023, respectively. These amounts 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.

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 food, clothing, 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. Food, clothing, foster care payments, recreation activities, and bad debt are directly attributable to program services.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

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 years ended June 30, 2023 and 2022, was \$42,578 and \$11,964, respectively.

Reclassification

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation of the current year consolidated financial statements.

Newly Adopted Accounting Pronouncements

During the year ended June 30, 2023, the Organization adopted the requirements of the following standards set by the Financial Accounting Standards Board (FASB).

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, (ASU 2016-02) which supersedes existing guidelines for accounting for leases under *Topic 840, Leases*. The FASB also subsequently issued the following additional ASUs, which amend and clarify ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the consolidated statement of financial position.

The Organization elected to adopt these ASUs effective July 1, 2022. The Organization did not adjust the prior period consolidated statement of financial position.

An election has been made to apply the short-term lease exception to all leases with a term of 12 months or less. Short-term lease costs do not reflect ongoing short-term lease commitments which are described in Note 8.

The Organization applied the package of practical expedients allowed by the standard, upon adoption of ASU 2016-02. The Organization did not reassess:

- Whether any expired or existing contracts are or contain leases under the new definition;
- The lease classification of any expired or existing leases; or
- Whether previously capitalized costs continue to qualify as initial direct costs.

As a result of the adoption of the new lease accounting guidance, on July 1, 2022, the Organization recognized a promise to give for \$230,858 which represents the present value of the remaining in-kind operating lease payments, discounted using the Organization's incremental borrowing rate of 5%.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 is intended to improve financial reporting about credit losses on certain receivable balances. The new standard will be effective beginning July 1, 2023. The Organization is in the process of evaluating the effect this guidance will have on its consolidated financial statements and related disclosures.

In March 2023, the FASB issued ASU No. 2023-01, *Leases (Topic 842): Common Control Arrangements*. ASU 2023-01 provides guidance on determining if an arrangement between entities under common control qualifies as a lease and the accounting treatment of that arrangement if the agreement qualifies as a lease. Additionally, the ASU provides guidance on the accounting for leasehold improvements related to related party leases. The new standard will be effective beginning July 1, 2024. The Organization is in the process of evaluating the effect this guidance will have on its consolidated financial statements and related disclosures.

Note 2 - Net Assets

Net assets are described as follows:

At June 30	2023	2022
Net assets without donor restrictions:		
Undesignated (deficit)	\$ 28,934	\$ (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	9,785	152,706
Passage of time	377,251	194,358
Total subject to expenditure for specified purpose or period	387,036	360,138
Not subject to spending policy or appropriation:		
Beneficial interest in perpetual trust	230,952	222,000
Net assets with donor restrictions	617,988	582,138
Total net assets	\$ 646,922	\$ 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>2023</u>	<u>2022</u>
Financial assets:		
Cash and equivalents	\$ 274,790	\$ 423,249
Accounts receivable, net	276,764	309,039
Other receivables	19,081	14,849
Related party receivable	51,045	
Promise to give	186,696	
Beneficial interest in perpetual trust	<u>230,952</u>	<u>222,000</u>
Total financial assets	1,039,328	969,137
Amounts not available for general expenditure:		
Net assets with donor restrictions	<u>(617,988)</u>	<u>(582,138)</u>
Net financial assets available to meet cash needs		
<u>for general expenditures within one year</u>	<u>\$ 421,340</u>	<u>\$ 386,999</u>

Note 4 - Contract Assets and Liabilities

Accounts receivable, promise to give, 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 less an allowance for doubtful accounts.

The promise to give represents an in-kind promise to give for the use of donated building space and is recorded at the present value of future cash flows over the lease term.

The Organization is an irrevocable beneficiary in a perpetual trust held which is 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.

Note 4 - Contract Assets and Liabilities (continued)

The following table provides information about contract assets:

At June 30	2023	2022	2021
Accounts receivable	\$ 278,027	\$ 309,039	\$ 916,617
Less, allowance for doubtful accounts	(1,263)		
Accounts receivable, net	<u>276,764</u>	<u>309,039</u>	<u>916,617</u>
Promise to give:			
Due in less than one year	54,475		
Due in one to five years	<u>149,806</u>		
Total promise to give	204,281		
Less, discount to net present value at 5%	<u>(17,585)</u>		
Promise to give, net	<u>186,696</u>		
Beneficial interest in perpetual trust	<u>230,952</u>	<u>222,000</u>	<u>279,000</u>
Total contract assets	\$ 694,412	\$ 531,039	\$ 1,195,617

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 statements 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:

Years Ended June 30	2023	2022
Unearned fees, beginning of year	\$ 10,070	\$ 1,324
Revenue recognized during the fiscal year that was included in unearned fees	(10,070)	(56,766)
Increase in unearned fees due to cash received during year	<u>12,327</u>	<u>65,512</u>
Unearned fees, end of year	<u>12,327</u>	<u>10,070</u>

Note 4 - Contract Assets and Liabilities (continued)

Years Ended June 30	2023	2022
Conditional grants, beginning of year	\$ 96,942	\$
Revenue recognized during the fiscal year that was included in unearned fees	(96,942)	
Increase in conditional grants due to cash received during year	<u>310,377</u>	<u>96,942</u>
Conditional grants, end of year	<u>310,377</u>	<u>96,942</u>
Total contract liabilities	\$ 322,704	\$ 107,012

Note 5 - Fair Value Measurements

Beneficial interest in perpetual trust is reported in the accompanying consolidated 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.

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

At June 30, 2023	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 7,313	\$	\$	\$ 7,313
Equity investments:				
Exchange-traded funds	110,120			110,120
Mutual funds - equity	62,836			62,836
Mutual funds - bonds	<u>50,683</u>			<u>50,683</u>
Total beneficial interest in perpetual trust	\$ 230,952	\$	\$	\$ 230,952

Note 5 - Fair Value Measurements (continued)

At June 30, 2022	Level 1	Level 2	Level 3	Total
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:

At June 30	2023	2022
Land	\$ 75,000	\$ 75,000
Buildings and improvements	228,782	235,182
Leasehold improvements	275,745	279,295
Machinery and equipment	376,582	347,716
Office equipment	209,234	212,162
Furniture and fixtures	147,252	153,778
Vehicles	<u>134,354</u>	<u>94,709</u>
	1,446,949	1,397,842
Less, accumulated depreciation	<u>(889,175)</u>	<u>(873,302)</u>
Property and equipment	\$ 557,774	\$ 524,540

Depreciation expense for the years ended June 30, 2023 and 2022, is \$96,880 and \$95,548, respectively.

Note 7- Accrued Liabilities

Accrued liabilities are described as follows:

At June 30	2023	2022
Accrued payroll	\$ 187,532	\$ 148,931
Accrued compensated absences	<u>65,021</u>	<u>63,073</u>
Accrued liabilities	\$ 252,553	\$ 212,004

Note 8 - Leases

The Organization leases office equipment under a non-cancellable operating lease agreement with a remaining lease term of four years. The discount rate for the operating lease was determined using the Organization's incremental borrowing rate of 5.50% for the year ended June 30, 2023. The lease agreement includes variable payments based on maintenance and usage rates which are not determinable at lease commencement and are not included in the measurement of the lease asset and liability.

The following is a schedule of future minimum lease payments under the operating lease agreement:

<u>Years Ending June 30</u>	<u>Payments</u>
2024	\$ 11,211
2025	11,211
2026	11,211
2027	11,211
2028	933
Total payments	45,777
Less, imputed interest	(4,672)
<u>Total operating lease liability</u>	<u>\$ 41,105</u>

The following summarizes the line items in the accompanying consolidated statement of functional expenses which include the components of lease costs:

<u>Year Ended June 30</u>	<u>2023</u>
Short-term and immaterial operating leases included in rent and supplies	\$ 279,732
Operating lease costs included in rent	10,276
Variable lease payments included in supplies	900
<u>Total lease costs</u>	<u>\$ 290,908</u>

The Organization also leases equipment and building space under non-cancellable operating lease agreements. The Organization assessed whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) during the year ended June 30, 2023, when FASB ASU 2016-02, *Leases* was adopted. The Organization has elected to apply the short-term lease exception to all leases with a term of 12 months or less. Leases with a remaining term of 12 months or less, or those that are considered immaterial, are not recorded in the consolidated statements of financial position. Management has determined all remaining operating leases meet this criterion and has not recognized operating lease agreements as operating lease liabilities. Lease expense is recognized for these leases on a straight-line basis over the lease term. These leases require various monthly payments and expire through April 2026.

Note 8 - Leases (continued)

The following is a schedule of future minimum lease payments under short-term and immaterial lease agreements:

<u>Years Ending June 30</u>	<u>Payments</u>
2024	\$ 3,153
2025	3,153
2026	2,366
2027	
2028	
Total minimum lease payments	<u>\$ 8,672</u>

Previous Guidance

Total lease expenses under all non-cancellable leases for the year ended June 30, 2022, was \$278,488.

Note 9 - Long-term Debt

Long-term debt is described as follows:

<u>At June 30</u>	<u>2023</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	\$ 17,295	\$ 19,861
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	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	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>	<u>279,650</u>
Total long-term debt	567,352	569,918
Less, unearned discount on long-term debt	<u>(193,175)</u>	<u>(197,760)</u>
Total long-term debt, net of unearned discount	374,177	372,158
Less, current maturities	<u>(281,526)</u>	<u>(281,442)</u>
Long-term debt, net of current maturities	<u>\$ 92,651</u>	<u>\$ 90,716</u>

Note 9 - Long-term Debt (continued)

A promissory note was signed in June 2012, with a face amount of \$279,650, no stated interest, and 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, 2023 and 2022, until terms are formalized.

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

<u>Years Ending June 30</u>	<u>Payments</u>
2024	\$ 282,216
2025	2,566
2026	2,566
2027	2,566
2028	2,566
Thereafter	<u>274,872</u>
<u>Principal payments on long-term debt</u>	<u>\$ 567,352</u>

Note 10 - 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 in-kind contributions in the consolidated financial statements since the recognition criteria were not met. In-kind contributions are summarized as follows:

<u>Year Ended June 30, 2023</u>	<u>Fair Value</u>	<u>Usage in Program</u>	<u>Donor Restriction</u>
Building space	\$ 453,871	Allocated to programs & support	Passage of Time
Professional services	28,800	Allocated to programs & support	None
Supplies	38,633	Allocated to programs & support	None
Christmas gifts for children	<u>79,005</u>	Allocated to programs	None
Total contributions of nonfinancial assets	<u>\$ 600,309</u>		

Note 10 - In-kind Contributions (continued)

Year Ended June 30, 2022

	<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>		

The Organization uses building space and land provided by Buncombe County under a lease agreement for \$1 per month. During the year ended June 30, 2023, and in connection with the adoption of ASC 842, *Leases*, the Organization recognized an unconditional promise to give in the amount of \$230,858 and in-kind rent contributions for the full lease term through March 2027, as described in Note 4. The usage of the donated building space will be amortized over the life of the promise to give on the straight-line basis.

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 11 - 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 years ended June 30, 2023 and 2022. Employer contributions to the Plan become vested after three years of service using a graded scale. The Organization contributed \$85,659 and \$ 72,815 to the Plan during the years ended June 30, 2023 and 2022, respectively.

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 12 - Commitments and Contingencies

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 13 - Concentrations of Credit Risk

Uninsured Cash Balances

The Organization maintains its cash and equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. Generally, the amounts will exceed the FDIC insurance limits and be partially uninsured.

Investment Risk

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.

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 one such payor totaled \$2,793,273 for the year ended June 30, 2023. Accounts receivable from this payor at June 30, 2023 totaled \$98,191. Revenues from two such payor totaled \$2,464,314 and \$829,637 for the year ended June 30, 2022. Accounts receivable from these payors at June 30, 2022, totaled \$137,116 and \$24,134, respectively.

Note 14 - 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 \$8,864 and \$22,185, in interest expense to the Foundation under this arrangement during the years ended June 30, 2023 and 2022, respectively. Outstanding payables due to the Foundation were \$39,344 and \$743,992, as of June 30, 2023 and 2022, respectively. Outstanding receivables due from the Foundation were \$51,045 for the year ended June 30, 2023. The Foundation also provided operating subsidies to the Organization totaling \$138,000 during each of the years ended June 30, 2023 and 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 statements of activities for each of the years ended June 30, 2023 and 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 \$374,177 and \$372,158, as of June 30, 2023 and 2022, respectively, as described in Note 9.

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 also listed as a guarantor on the agreement.

Contributions from board members totaled \$8,763, during the year ended June 30, 2023.

Note 15 - 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, 2023, 2021, and 2020, 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, 2023, 2021, and 2020, are open for examination by the IRS.

Note 16 - Subsequent Events

Management has evaluated subsequent events through November 17, 2023, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Schedule of Program Expenses Year Ended June 30, 2023

	Residential Treatment					
	Cummings Cottage	Green Cottage	Reuter Cottage	Day Treatment	Foster Care	Eliada Farms
Salaries	\$ 20,856	\$ 160,133	\$ 859,732	\$ 396,618	\$ 188,634	\$
Employee benefits	1,595	12,438	68,222	30,013	20,119	
Retirement benefits	21	2,068	13,142	7,516	3,288	
Payroll taxes	1,575	11,985	64,433	29,374	13,589	
Supplies and cost of sales	1,483	4,682	26,646	7,398	7,329	(266)
Food		6,688	31,398	13,196		
Computer technology		342	1,915	103	72	114
Clothing		265	1,206		1,225	
Utilities	10,805	7,244	65,124	11,129	1,103	
Insurance	5,316	7,223	51,792	13,564	4,396	
Maintenance and repairs	921	6,426	33,561	11,761	2,409	
Telephone		635	5,052	1,511	2,238	
Postage		1	25	26	46	
Travel	216	265	2,599	580	13,368	
Dues and subscriptions		29	228	241	700	
License and fees	1,210	2,182	9,053	905	282	30
Student related expense	167	1,624	10,495	3,650	10,214	
Foster care payments					241,626	
Rent	14,600	24,038	48,352	20,595	2,438	
Professional fees		2,746	169,731	1,657	24,525	1,000
Conferences and meetings	692	1,065	5,076	1,519	1,201	
Recreation activities		86	606	11	968	
Promotions					6,226	5,883
Miscellaneous		114	612	6,172	25,937	195
Bad Debts			1,263		7,025	
Depreciation	2,725	1,958	8,440	3,953	2,806	
Interest			7	2	1	1,966
Total expenses	<u>\$ 62,182</u>	<u>\$ 254,237</u>	<u>\$ 1,478,710</u>	<u>\$ 561,494</u>	<u>\$ 581,765</u>	<u>\$ 8,922</u>

ELIADA HOMES, INC. AND SUBSIDIARY

Consolidated Schedule of Program Expenses (continued) Year Ended June 30, 2023

	Child Development Center			Community Based Services			Total Program Expenses
	Daycare Preschool	After School School Age	Summer Camp	Vocational Program ESTA	Equine Therapy	Outpatient Department	
Salaries	\$ 1,556,852	\$ 81,373	\$ 50,315	\$ 173,453	\$ 54,800	\$ 166,727	\$ 3,709,493
Employee benefits	132,145	7,498	2,704	13,959	6,679	17,493	312,865
Retirement benefits	22,478	488	198	4,194	1,588	4,700	59,681
Payroll taxes	116,727	6,184	3,823	12,605	4,018	11,939	276,252
Supplies and cost of sales	94,638	5,320	5,437	36,383	856	2,037	191,943
Food	154,085	9,654	10,049	25,430			250,500
Computer technology	801	200	67	3,058			6,672
Clothing							2,696
Utilities	68,227	5,089	3,467	13,827	346	979	187,340
Insurance	52,855	6,297	1,838	15,545	568	1,551	160,945
Maintenance and repairs	140,071	9,786	4,096	13,399	1,310	3,904	227,644
Telephone	4,132	835	202	2,022	93	1,271	17,991
Postage	35		24	5			162
Travel	2,324	2,455	8,458	2,741	84	13,217	46,307
Dues and subscriptions	40	60			1,800		3,098
License and fees	4,399	176	267	1,236	358	191	20,289
Student related expense	32,424	19,597	111	35,267	45	75	113,669
Foster care payments							241,626
Rent	97,551	7,714	1,176	15,433	237	4,697	236,831
Professional fees	2,468	301	94	1,896	2,954	494	207,866
Conferences and meetings	7,347	115	486	91	26	1,817	19,435
Recreation activities			6,542				8,213
Promotions							12,109
Miscellaneous	1,559	108	41	165	5	15	34,923
Bad Debts	6,052	768	558		254	568	16,488
Depreciation	30,970	8,401	2,437	4,176	840	1,001	67,707
Interest	<u>9</u>	<u></u>	<u>1</u>	<u>1</u>	<u></u>	<u>1</u>	<u>1,988</u>
Total expenses	<u>\$ 2,528,189</u>	<u>\$ 172,419</u>	<u>\$ 102,391</u>	<u>\$ 374,886</u>	<u>\$ 76,861</u>	<u>\$ 232,677</u>	<u>\$ 6,434,733</u>

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, 2023 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 November 17, 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
November 17, 2023