

HOSPITALITY HOUSE OF NORTHWEST NORTH CAROLINA

FINANCIAL STATEMENTS

For the years ended June 30, 2020 and 2019

COMBS, 
TENNANT & CARPENTER, P.C.
Certified Public Accountants

HOSPITALITY HOUSE OF NORTHWEST NORTH CAROLINA

Board of Directors

June 30, 2020

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Kay Borkowski

Mary Anne Caplinger

Adele Dunbar

Jacque Dunbar

Peter Finne

Wayne Harris

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Casey Miller

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Tom Trueman

Lory Whitehead

HOSPITALITY HOUSE OF NORTHWEST NORTH CAROLINA
Boone, North Carolina

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hospitality House of Northwest North Carolina
Boone, North Carolina

We have audited the accompanying financial statements of Hospitality House of Northwest North Carolina (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Hospitality House of Northwest North Carolina as of June 30, 2020 and 2019, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2021, on our consideration of Hospitality House of Northwest North Carolina'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 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 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 Hospitality House of Northwest North Carolina's internal control over financial reporting and compliance.

COMBS, TENNANT & CARPENTER, P.C.

COMBS, TENNANT & CARPENTER, P.C.
Certified Public Accountants
Boone, North Carolina

February 12, 2021

Financial Statements

HOSPITALITY HOUSE OF NORTHWEST NORTH CAROLINA
Statements of Financial Position
June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|------------------------------------------------|---------------------|---------------------|
| Assets: | | |
| Current Assets | | |
| Cash | | |
| Cash-unrestricted | \$ 274,132 | \$ (16,529) |
| Cash-restricted | 46,865 | 28,000 |
| Accounts receivable, net | 15,104 | 5,902 |
| Grants receivable | 60,942 | 23,099 |
| Pledges receivable, net | - | - |
| Total Current Assets | 397,043 | 40,472 |
| Beneficial interest in NC Community Foundation | 46,426 | 37,291 |
| Fixed assets, net | 2,946,838 | 3,082,056 |
| Total assets | \$ 3,390,307 | \$ 3,159,819 |
| Liabilities and net assets: | | |
| Liabilities: | | |
| Current Liabilities | | |
| Accounts payable | \$ 15,741 | \$ 41,625 |
| Credit card payable | 19,944 | 39,357 |
| Accrued liabilities | 28,423 | 21,387 |
| Accrued vacation | 10,473 | 10,179 |
| Client funds held | 59 | 29 |
| Lines of credit | 63,084 | 49,240 |
| Current portion of long-term debt | 9,896 | 16,869 |
| Total Current Liabilities | 147,620 | 178,686 |
| Long-term Liabilities | | |
| Notes payable | 1,363,169 | 1,250,465 |
| Total Long-term Liabilities | 1,363,169 | 1,250,465 |
| Total liabilities | 1,510,789 | 1,429,151 |
| Net assets: | | |
| Without donor restrictions | 1,832,653 | 1,702,668 |
| With donor restrictions | 46,865 | 28,000 |
| Total net assets | 1,879,518 | 1,730,668 |
| Total liabilities and net assets | \$ 3,390,307 | \$ 3,159,819 |

The accompanying notes are an integral part of the financial statements.

HOSPITALITY HOUSE OF NORTHWEST NORTH CAROLINA

Statements of Activities

For the Years Ended June 30, 2020 and 2019

| Changes in net assets without donor restrictions: | <u>2020</u> | <u>2019</u> |
|----------------------------------------------------------------------------|---------------------|---------------------|
| Revenues and gains: | | |
| Religious contributions | \$ 216,861 | \$ 194,446 |
| Individuals and organizations | 744,647 | 563,847 |
| Governmental funds - local | 51,063 | 50,000 |
| Governmental funds - Federal and State | 378,612 | 276,903 |
| Thrift store sales | 445 | 6,593 |
| In-kind contributions | 314,429 | 335,957 |
| Interest | 167 | 275 |
| Rental/Lease income | 181,354 | 159,006 |
| Other | 483 | 2,728 |
| Total revenues and gains without donor restrictions | 1,888,061 | 1,589,755 |
| Net assets (added to) released from restrictions | - | - |
| Total revenues, gains, and other support without donor restrictions | 1,888,061 | 1,589,755 |
| Expenses: | | |
| Program services | 1,414,200 | 1,189,502 |
| General and administrative | 271,717 | 398,729 |
| Fundraising | 72,159 | 94,701 |
| Total expenses | 1,758,076 | 1,682,932 |
| Increase(decrease) in net assets without donor restrictions | 129,985 | (93,177) |
| Changes in net assets with donor restrictions: | | |
| Individuals and organizations | - | - |
| Governmental funds - Federal and State | 18,865 | - |
| Increase (decrease) in net assets with donor restrictions | 18,865 | - |
| Increase (decrease) in net assets | 148,850 | (93,177) |
| Net assets at beginning of year | 1,730,668 | 1,823,845 |
| Net assets at end of year | \$ 1,879,518 | \$ 1,730,668 |

The accompanying notes are an integral part of the financial statements.

HOSPITALITY HOUSE OF NORTHWEST NORTH CAROLINA

Statement of Functional Expenses
For the Year Ended June 30, 2020

| | Program Services | | Supporting Services | | Totals June 30, 2020 |
|--------------------------------|----------------------------------|------------------|------------------------|---------------------------------|----------------------------|
| | General and Administrative | Fund Raising | Supporting Services | Total Supporting Services | |
| Salaries | \$ 540,283 | \$ 21,692 | \$ 156,118 | \$ | 696,401 |
| Payroll taxes and benefits | 91,595 | 4,810 | 28,855 | | 120,450 |
| Meals provided | 330,080 | - | 56 | | 330,136 |
| Utilities | 78,190 | - | 19,198 | | 97,388 |
| Repairs and maintenance | 15,763 | - | 9,749 | | 25,512 |
| Client services | 207,313 | - | - | | 207,313 |
| Supplies | 28,748 | - | 7,187 | | 35,935 |
| Insurance | - | - | 21,869 | | 21,869 |
| Thriftique rent | - | - | - | | - |
| Professional fees | - | - | 9,194 | | 9,194 |
| Postage | 1,171 | - | - | | 1,171 |
| Printing | 772 | - | 1,158 | | 1,930 |
| Fundraising | - | 38,830 | 38,830 | | 38,830 |
| Conferences | - | 595 | 595 | | 595 |
| Travel | 5,474 | - | 1,368 | | 6,842 |
| Bank charges/ credit card fees | - | - | 1,148 | | 1,148 |
| Bad debt | - | - | 3,218 | | 3,218 |
| Miscellaneous | - | - | 590 | | 590 |
| Office equipment | 3,409 | - | 3,943 | | 7,352 |
| Donor management | - | 6,232 | 6,232 | | 6,232 |
| Interest | - | - | 6,718 | | 6,718 |
| Depreciation | 111,402 | - | 27,850 | | 139,252 |
| Total expenses | \$ 1,414,200 | \$ 72,159 | \$ 343,876 | \$ | \$ 1,758,076 |

The accompanying notes are an integral part of the financial statements.

HOSPITALITY HOUSE OF NORTHWEST NORTH CAROLINA

Statement of Functional Expenses
For the Year Ended June 30, 2019

| | Program Services | | Supporting Services | | | Totals June 30, 2019 |
|----------------------------|---------------------|----------------------------------|---------------------|---------------------------------|---------------------|----------------------------|
| | | General and Administrative | Fund Raising | Total Supporting Services | | |
| Salaries | \$ 348,580 | \$ 236,536 | \$ 37,348 | \$ 273,884 | \$ 622,464 | |
| Payroll taxes and benefits | 65,410 | 44,391 | 7,002 | 51,393 | 116,803 | |
| Meals provided | 349,830 | - | - | - | 349,830 | |
| Utilities | 79,805 | 19,639 | - | 19,639 | 99,444 | |
| Repairs and maintenance | - | - | - | - | - | |
| Client services | 178,759 | 22,933 | - | 22,933 | 201,692 | |
| Supplies | 3,078 | 9,906 | 1,047 | 10,953 | 14,031 | |
| Insurance | 16,147 | 4,037 | - | 4,037 | 20,184 | |
| Thriftique rent | 17,600 | - | - | - | 17,600 | |
| Professional fees | 250 | 8,500 | - | 8,500 | 8,750 | |
| Postage | - | 762 | - | 762 | 762 | |
| Printing | 486 | 729 | - | 729 | 1,215 | |
| Fundraising | - | - | 48,442 | 48,442 | 48,442 | |
| Conferences | 1,180 | 297 | - | 297 | 1,477 | |
| Travel | 3,273 | 4,910 | - | 4,910 | 8,183 | |
| Bank charges | 6,081 | 502 | - | 502 | 6,583 | |
| Bad debt | - | 15 | - | 15 | 15 | |
| Miscellaneous | - | 640 | - | 640 | 640 | |
| Office equipment | 1,716 | 9,775 | - | 9,775 | 11,491 | |
| Donor management | 6,961 | - | 862 | 862 | 7,823 | |
| Interest | - | 7,571 | - | 7,571 | 7,571 | |
| Depreciation | 110,346 | 27,586 | - | 27,586 | 137,932 | |
| Total expenses | \$ 1,189,502 | \$ 398,729 | \$ 94,701 | \$ 493,430 | \$ 1,682,932 | |

The accompanying notes are an integral part of the financial statements.

HOSPITALITY HOUSE OF NORTHWEST NORTH CAROLINA

Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------------------------------------------------------------------|--------------------------|-------------------------|
| Cash flows from operating activities: | | |
| Cash received from revenues and gains | \$ 1,906,926 | \$ 1,589,755 |
| Cash paid to employees and suppliers | <u>(1,690,129)</u> | <u>(1,543,247)</u> |
| Net cash provided (used) by operating activities | <u>216,797</u> | <u>46,508</u> |
| Cash flows from investing activities: | | |
| Interest income | 167 | 275 |
| Contributions to beneficial interest trust | (9,135) | (37,291) |
| Sale of property | - | - |
| Purchase of property and equipment | <u>(4,035)</u> | <u>(47,348)</u> |
| Net cash provided (used) by investing activities | <u>(13,003)</u> | <u>(84,364)</u> |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 134,800 | - |
| Payments on long-term debt | <u>(29,068)</u> | <u>(16,870)</u> |
| Net cash provided (used) by financing activities | <u>105,732</u> | <u>(16,870)</u> |
| Increase (decrease) in cash | 309,526 | (54,726) |
| Beginning cash | <u>11,471</u> | <u>66,197</u> |
| Ending cash | <u><u>\$ 320,997</u></u> | <u><u>\$ 11,471</u></u> |
| Reconciliation of change in net assets to net cash used by operating activities: | | |
| Change in net assets | <u>\$ 148,850</u> | <u>\$ (93,177)</u> |
| Adjustments to reconcile changes in net assets to net cash used by operating activities: | | |
| Depreciation | 139,252 | 137,932 |
| Interest income | (167) | (275) |
| (Increase) decrease in accounts receivable | (9,202) | 18,366 |
| (Increase) decrease in grants receivable | (37,843) | 7,215 |
| (Increase) decrease in pledges receivable | - | 2,050 |
| Increase (decrease) in accounts payable | (25,854) | (27,732) |
| Increase (decrease) in credit card payable | (19,413) | 22,538 |
| Increase (decrease) in lines of credit | 13,844 | (24,265) |
| Increase (decrease) in payroll liabilities | 7,036 | 2,542 |
| Increase (decrease) in other current liabilities | 294 | 2,352 |
| Increase (decrease) in deferred revenue | <u>-</u> | <u>(1,038)</u> |
| Total adjustments | <u>67,947</u> | <u>139,685</u> |
| Cash flows provided (used) by operating activities | <u><u>\$ 216,797</u></u> | <u><u>\$ 46,508</u></u> |

The accompanying notes are an integral part of the financial statements.

HOSPITALITY HOUSE OF NORTHWEST NORTH CAROLINA

Notes to Financial Statements

June 30, 2020

NOTE 1 – Summary of Significant Accounting Policies:

ORGANIZATION – Hospitality House of Northwest North Carolina, Inc., is located in Boone, North Carolina and organized and operated exclusively for charitable purposes in accordance with Section 501(c)(3) of the Internal Revenue Code. More specifically, the Organization is a crisis intervention agency which provides shelter and services to the homeless, operates the community soup kitchen, and administers local crisis assistance programs. Funding for the Organization is derived primarily from donor contributions and grants. During the year ended June 30, 2019 the Organization elected to change its name to Hospitality House of Northwest North Carolina to better reflect its service area footprint.

BASIS OF ACCOUNTING - The financial statements of Hospitality House of Northwest North Carolina have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

BASIS OF PRESENTATION – The Organization has adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This update requires the Organization to present its net assets in the following categories:

Net assets without donor restrictions- Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions- Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

CASH AND EQUIVALENTS - Cash and equivalents include cash on hand and term certificates of deposit at financial institutions with an initial maturity of three months or less.

RESTRICTED CASH - The Organization's cash is subject to restrictions imposed by donors, granting agencies, and other external entities. Restricted cash balances were \$46,865 at June 30, 2020 and \$28,000 at June 30, 2019. The balances represent the Organization's obligation under loan covenants between the Organization and North Carolina Housing and Finance Agency (NCHFA). Those covenants require a minimum balance of cash reserves to be maintained by the Organization to meet future capital and operating expenses. Reserves may only be utilized with the permission of NCHFA and are required to be replenished within a timeframe established by them. At June 30, 2019, the Organization's cash balance was temporarily below the established reserve amount, resulting in a negative unrestricted cash balance of \$(16,529) on the Statement of Financial Position.

DONATED ASSETS – Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

DONATED PROPERTY AND EQUIPMENT – Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies restricted net assets to unrestricted net assets at that time.

DONATED SERVICES – Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. A substantial number of volunteers also donated a significant amount of time to the Organization's operations and program services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria was not met.

FUNCTIONAL EXPENSES – The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SUPPORT AND REVENUES - Certain revenues received under government grant programs are subject to audit by the providing agency. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor or the Board of Directors.

ACCOUNTS RECEIVABLE - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants, contracts, and others. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. An allowance for uncollectible accounts has been established based on historical collection experience of the Organization of \$3,312 and \$3,312 for 2020 and 2019, respectively.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost as of the date of acquisition or fair value at the date of donation. Depreciation is provided over the estimated life of each asset on the straight-line method. Asset lives range from seven to forty years for buildings and improvements, and three to seven years for computers, office equipment, and furniture and fixtures. The Organization maintains a capitalization policy of \$2,500.

INCOME TAXES – Hospitality House of Northwest North Carolina is an exempt organization for Federal income tax purposes under Section 501(c)(3) of the Internal Revenue Code. The Organization’s Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2020, 2019, and 2018 are subject to examination by the IRS, generally for three years after they were filed.

ACCOUNTING ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PLEDGES – Unconditional pledges to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional pledges are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional. No allowance for uncollectible pledges has been established for years ended 2020 and 2019 based on historical collection experience of the Organization.

NOTE 2 – Accounts Receivable:

Accounts receivable on June 30, 2020 and 2019 were as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------------|------------------|-----------------|
| Accounts receivable | \$ 18,416 | \$ 9,214 |
| Less allowance for uncollectible accounts | (3,312) | (3,312) |
| Total accounts receivable, net | <u>\$ 15,104</u> | <u>\$ 5,902</u> |

NOTE 3 – Pledges:

Pledges on June 30, 2020 and 2019 were as follows:

| | <u>2020</u> | <u>2019</u> |
|------------------------------------------|-------------|-------------|
| Unconditional pledges | \$ - | \$ - |
| Less allowance for uncollectible pledges | - | - |
| Total pledges, net | <u>\$ -</u> | <u>\$ -</u> |

NOTE 4 – Fixed Assets:

A detail of the fixed assets on June 30, 2020 and 2019 is as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|---------------------|---------------------|
| Land | \$ 563,036 | \$ 563,036 |
| Construction in Progress | - | - |
| Buildings | 3,452,192 | 3,452,192 |
| Improvements | 66,685 | 66,685 |
| Furniture & Fixtures | 99,125 | 95,090 |
| Office Equipment | 9,800 | 9,800 |
| Other Equipment | 189,586 | 189,586 |
| | <u>4,380,424</u> | <u>4,376,389</u> |
| Less accumulated depreciation | <u>1,433,586</u> | <u>1,294,333</u> |
| Total fixed assets, net | <u>\$ 2,946,838</u> | <u>\$ 3,082,056</u> |

Depreciation expense for the year ended June 30, 2020 and 2019 was \$139,252 and \$137,932, respectively.

NOTE 5 – Restrictions/Limitations on Net Assets :

Restricted net assets are available for the following purposes as of December 31:

| | <u>2020</u> | <u>2019</u> |
|---------------------------|------------------|------------------|
| NCHFA reserve requirement | <u>\$ 46,865</u> | <u>\$ 28,000</u> |

NOTE 6 – Vacation and Sick Pay:

Vacation is awarded annually and up to 5 days can be carried over each year, annually. Accumulated vacation pay at June 30, 2020 and 2019 amounted to \$10,473 and \$10,179, respectively, which is reflected as a liability in the financial statements. The Organization's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest. Since the Organization has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

NOTE 7 – Notes Payable:

The Organization’s obligation under notes payable consists of the following:

| | <u>2020</u> | <u>2019</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Note payable, secured by a Deed of Trust on a building, interest at 0%, due April 22, 2040. | \$ 1,000,000 | \$ 1,000,000 |
| Note payable, secured by a Deed of Trust on a building, interest at 0%, with monthly payments of \$825, due November 1, 2033 | 135,145 | 143,392 |
| Note payable, secured by a Deed of Trust on a building, interest at 0%, due November 3, 2033. Note shall be reduced (forgiven) by 10% of the original amount each anniversary date of the note starting 9 years prior to maturity date and then each year thereafter until maturity. | 103,120 | 103,120 |
| Note payable, unsecured interest, at 5.85%, with monthly payments of \$667, due April 16, 2022. | - | 20,822 |
| Note payable, unsecured interest, at 1%, due April 20, 2022 | 134,800 | - |
| | <hr/> | <hr/> |
| Total | 1,373,065 | 1,267,334 |
| Less current installments of long-term debt | 9,896 | 16,869 |
| Long term debt, excluding current installments | <u>\$ 1,363,169</u> | <u>\$ 1,250,465</u> |

The future scheduled maturities of long-term debt are as follows:

| <u>Year Ending</u> | <u>Amount</u> |
|--------------------|---------------------|
| 2021 | 9,896 |
| 2022 | 144,696 |
| 2023 | 9,896 |
| 2024 | 9,896 |
| Thereafter | 1,198,681 |
| | <u>\$ 1,373,065</u> |

Paycheck Protection Program Loan:

On April 20, 2020, the Organization received loan proceeds in the amount of \$134,800 under the Paycheck Protection Program (PPP). The PPP provides funding for qualifying organizations under the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Forgiveness of the loan principal and accrued interest may be applied for after a twenty-four-week period. Potential forgiveness is dependent upon the Organization using the funds for specified purposes including, payroll, benefits, rent, and utilities. As of June 30, 2020, the Organization had not yet applied for forgiveness, and the \$134,800 is reflected on the Statement of Net Position as a note payable and in the future schedule of maturities above. On November 2, 2020 and subsequent to the June 30, 2020 fiscal close, the Organization applied for and received forgiveness on the entire balance of the loan.

NOTE 8 – Lines of Credit:

The Organization has two revolving lines of credit; \$25,000 with Capital Bank and \$50,000 with First National Bank. On June 30, 2020 and 2019, the credit lines carried balances of \$63,084 and \$49,240, respectively. Advances

on the credit lines are payable on demand and carry interest rates of 10.25% to Capital Bank and 6.00% to First National Bank. The credit lines are uncollateralized.

NOTE 9 – Employee Benefit Plan:

A Savings Incentive Match Plan for Employees (SIMPLE) was established in 2006 by the Organization for the benefit of employees who have earned at least \$5,000 of compensation for the preceding year. A SIMPLE plan consists of separate retirement accounts established by the employer for each eligible employee. The Organization elected to match 3% of compensation for the years ended June 30, 2020 and 2019 which amounted to contributions of \$5,872 and \$8,498, respectively.

NOTE 10 – Summary Disclosure of Significant Contingencies:

Federal and State Assisted Programs - The Organization has received proceeds from several State and Federal grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

NOTE 11 – 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 natural disasters. The Organization carries commercial coverage for risk of loss. Claims did not exceed coverage in the past two fiscal years. At June 30, 2020, operating cash had a carrying balance of \$320,997 and bank balances of \$353,142. At June 30, 2019, operating cash had a carrying balance of totaling \$11,471 and bank balances of \$18,260. Bank balances were fully covered by the Federal Deposit Insurance Corporation for both periods.

NOTE 12 – Non-Cash Donations:

The Organization had the following non-cash donations during the years ended June 30, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|-----------------------|-------------------|-------------------|
| Food | \$ 242,593 | \$ 272,371 |
| Professional services | 71,836 | 63,586 |
| | <u>\$ 314,429</u> | <u>\$ 335,957</u> |

NOTE 13- Change in Accounting Principle:

For the year ended June 30, 2019 the Organization implemented ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new standard consolidated net asset classifications on the statement of net position and provides additional information regarding the restrictions on net assets and liquidity of assets held by the Organization. The statements and notes have been updated to provide the required information.

NOTE 14-Liquidity and Availability of Financial Assets:

The following reflects the Organization’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

| | <u>2020</u> | <u>2019</u> |
|----------------------------------------------------------------------------------------|-------------------|------------------|
| Financial assets at year-end | \$ 397,043 | \$ 40,472 |
| Less those unavailable for general expenditures within one year, due to: | | |
| Donor-restrictions | - | - |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 397,043</u> | <u>\$ 40,472</u> |

Of the above financial assets available on June 30, 2020 and 2019, the Organization has restricted cash balances of \$46,865 and \$28,000, respectively. The balances represent the Organization’s obligation under loan covenants between the Organization and North Carolina Housing and Finance Agency (NCHFA).

NOTE 15- Beneficial Interest in Assets Held by the North Carolina Community Foundation

The Organization has established an endowment fund with the North Carolina Community Foundation. The fund shall be governed by North Carolina law and the Foundation’s governing instruments and be devoted to the support of the Organization. Distributions are available to be made annually to the Organization. The beneficial interest may be redirected at the discretion of the Foundation’s Board of Directors and the investment is generally not redeemable by the Organization. On June 30, 2020, the fund had a balance of \$46,426 of which \$1,490 was available for distribution to the Organization. On June 30, 2019, the fund had a balance of \$37,291 of which \$1,240 was available for distribution to the Organization.

NOTE 16 - Fair Value Measurements:

Fair value measurement rules define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and require the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. In that regard, accounting rules establish a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Inputs to valuation methodology include significant other observable inputs, other than Level 1 inputs, such as quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; 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 by correlation or other means. 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.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table summarizes significant assets measured at fair value on a recurring basis as of June 30, 2020, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| Fair Value Measurements at June 30, 2020 using: | | | | | | |
|-----------------------------------------------------|----|-------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|----|--------|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | |
| Beneficial interest held at NC Community Foundation | | | | | | |
| | \$ | 46,426 | \$ | - | \$ | - |
| | \$ | 46,426 | \$ | - | \$ | 46,426 |

The following table summarizes significant assets measured at fair value on a recurring basis as of June 30, 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| Fair Value Measurements at June 30, 2019 using: | | | | | | |
|-----------------------------------------------------|----|-------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|----|--------|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | |
| Beneficial interest held at NC Community Foundation | | | | | | |
| | \$ | 37,291 | \$ | - | \$ | - |
| | \$ | 37,291 | \$ | - | \$ | 37,291 |

The beneficial interest in assets held at the NC Community Foundation has been valued, as a practical expedient, at the fair value of the Organization's share of the Foundation's investment pool as of the measurement date. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which include private placements and other securities for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The Foundation's investments are approximately composed of 70% equity (stocks), 20% fixed income, and 10% alternative

investments which the Foundation believes are appropriate for the long-term perspective of philanthropic investing and for the investment objective to preserve fund principal and generate an appropriate return.

Financial instruments classified as Level 3 in the fair value hierarchy represent the Organization's investments in financial instruments in which management has used at least one significant unobservable input in the valuation model. The following table represents a reconciliation of the activities for Level 3 financial instruments:

| | | |
|-------------------------------------------|----|--------|
| Balance at July 1, 2019 | \$ | 37,291 |
| Additional amounts invested | | 8,765 |
| Distributions received | | 250 |
| Realized and unrealized gains/losses, net | | 1,019 |
| Administrative fees | | (899) |
| Balance at June 30, 2020 | \$ | 46,426 |

NOTE 17 – Subsequent Events:

On November 30, 2020, the Organization purchased a building adjacent to its campus. The new facility will be used for staff office space which will allow current office space at the Brook Hollow location to be converted to additional beds and support expanded client services. Half of the purchase price of \$759,354 was initially funded with State grant monies and the remainder by a bridge loan with a local financial institution. Additional State grant monies became available on December 18, 2020 to satisfy the bridge loan.

The COVID-19 global pandemic continues to create economic uncertainty for individuals. The Organization may experience increased use of its services as a result of increased economic pressures in the community. The impact on the Organization's revenue streams is not reasonably estimable, however management believes additional funding will be secured and utilized to meet rising programmatic needs.

Management has evaluated subsequent events through February 12, 2021 – the date the financial statements were available to be issued.

Compliance Section

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Hospitality House of Northwest North Carolina
Boone, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hospitality House of Northwest North Carolina. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and June 30, 2019, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 12, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hospitality House of Northwest North Carolina's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hospitality House of Northwest North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospitality House of Northwest North Carolina'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 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hospitality House of Northwest North Carolina's financial statements are free of 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 determination of financial statement amounts. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

COMBS, TENNANT & CARPENTER, P.C.

COMBS, TENNANT & CARPENTER, P.C.
Certified Public Accountants
Boone, North Carolina

February 12, 2021