# Hospitality House of Northwest North Carolina

## FINANCIAL STATEMENTS
## FOR THE YEAR ENDED JUNE 30, 2025

**Hospitality House of Northwest North Carolina**
**Table of Contents**
**For the year ended June 30, 2025**


| | Page Number |
|---|---|
| **Independent Auditor's Report** | 1-2 |
| **Financial Statements** | |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Functional Expenses | 5 |
| Statement of Cash Flows | 6 |
| Notes to the Financial Statements | 7-14 |
| Schedule of Findings and Questioned Costs | 15 |
| Corrective Action Plan | 16 |
| Prior Year Audit Findings | 17 |
| Independent Auditor's 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* | 18-19 |

**MISTY D WATSON, CPA, P.A.**
**CERTIFIED PUBLIC ACCOUNTANT**
**PO BOX 2122**
**BOONE, NORTH CAROLINA 28607**
**TELEPHONE (704) 907-5053**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hospitality House of Northwest North Carolina

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of Hospitality House of Northwest North Carolina (a nonprofit organization), which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hospitality House of Northwest North Carolina as of June 30, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

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

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hospitality House of Northwest North Carolina's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

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

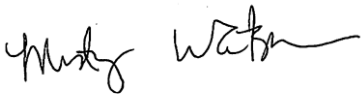
- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 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 Hospitality House of Northwest North Carolina'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hospitality House of Northwest North Carolina'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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1 2026, 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 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 Hospitality House of Northwest North Carolina'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 Hospitality House of Northwest North Carolina's internal control over financial reporting and compliance.



Misty D Watson, CPA, PA
Boone, NC
May 1, 2026

**Hospitality House of Northwest North Carolina**
**Statement of Financial Position**
**June 30, 2025**

## ASSETS

| | | |
|---|---|---|
| **Current Assets:** | | |
| Cash - unrestricted | $ | 615,931 |
| Cash - restricted | | 78,641 |
| Grants receivable | | 72,170 |
| Accounts receivable | | 35,854 |
| Investments | | 1,125,940 |
| Beneficial interest in NC Community Foundation | | 193,396 |
| Total current assets | | 2,121,932 |
| **Property and equipment, net:** | | 3,638,393 |
| **TOTAL ASSETS** | $ | 5,760,325 |

## LIABILITIES AND NET ASSETS

| | | |
|---|---|---|
| **Current Liabilities:** | | |
| Accounts payable | $ | 26,434 |
| Accrued liabilities | | 64,578 |
| Accrued vacation | | 17,854 |
| Prepaid grants and scholarships | | 728,794 |
| Deferred liability - right of way | | 11,195 |
| Notes payable, current portion | | 9,896 |
| Total current liabilities | | 858,751 |
| **Long-term Liabilities:** | | |
| Notes payable, less current portion | | 1,167,753 |
| Total long-term liabilities | | 1,167,753 |
| **TOTAL LIABILITIES** | | 2,026,504 |
| **Net Assets:** | | |
| Without donor restrictions | | 3,655,180 |
| With donor restrictions | | 78,641 |
| Total net assets | | 3,733,821 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ | 5,760,325 |

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

**Hospitality House of Northwest North Carolina**
**Statement of Activities**
**For the Years Ended June 30, 2025**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Support and Revenue:** | | | |
| Individual and organization contributions | $ 2,477,082 | 433,553 | 2,910,635 |
| Governmental funds - local | - | 266,961 | 266,961 |
| Governmental funds - Federal and State | - | 516,383 | 516,383 |
| In-kind donations | 143,739 | - | 143,739 |
| Rental income | - | 128,018 | 128,018 |
| Fundraising | 607,674 | - | 607,674 |
| Interest and dividends | 26,847 | - | 26,847 |
| NCHFA debt forgiveness | 11,136 | - | 11,136 |
| Insurance proceeds | 16,814 | - | 16,814 |
| Unrealized gain (loss) on investments | 86,076 | - | 86,076 |
| Net assets released from restrictions: | | | |
| Satisfaction of program restrictions | 908,094 | (908,094) | - |
| Total Support and Revenue | 4,277,462 | 436,821 | 4,714,283 |
| **Expenses:** | | | |
| Program services | 3,824,035 | - | 3,824,035 |
| Management and general expenses | 551,913 | - | 551,913 |
| Fundraising | 292,995 | - | 292,995 |
| Total Expenses | 4,668,943 | - | 4,668,943 |
| **Change in Net Assets** | (391,481) | 436,821 | 45,340 |
| Net Assets, beginning of year | 3,567,461 | 75,373 | 3,642,834 |
| Prior period adjustment | 45,647 | - | 45,647 |
| Net Assets, beginning of year, restated | 3,613,108 | 75,373 | 3,688,481 |
| Net Assets, end of year | $ 3,221,627 | 512,194 | 3,733,821 |

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, 2025**

| | | Supporting Services | | | |
|---|---|---|---|---|---|
| **FUNCTIONAL EXPENSES** | **Program Expenses** | **Management & General Expenses** | **Fundraising** | **Total Supporting Services** | **Total Expenses** |
| Auto | $ 4,883 | 1,354 | - | 1,354 | 6,237 |
| Bad debt expense | 31,886 | 33 | - | 33 | 31,919 |
| Bank service charges | 641 | 20,291 | 76 | 20,367 | 21,008 |
| Client services | 923,105 | 1,943 | - | 1,943 | 925,048 |
| Depreciation | 173,510 | - | - | - | 173,510 |
| Development and training | 565 | 6,890 | 332 | 7,222 | 7,787 |
| Dues and subscriptions | 503 | 2,584 | 830 | 3,414 | 3,917 |
| Employee benefits | 227,432 | - | 5,282 | 5,282 | 232,714 |
| Insurance - general | 20,493 | 20,509 | - | 20,509 | 41,002 |
| Investment expense | - | 14,127 | - | 14,127 | 14,127 |
| Office expense | 32,215 | 28,836 | 6,668 | 35,504 | 67,719 |
| Payroll taxes | 146,857 | 25,504 | 11,905 | 37,409 | 184,266 |
| Personnel recruitment | 23,587 | 52,890 | 36 | 52,926 | 76,513 |
| Professional fees | - | 18,012 | - | 18,012 | 18,012 |
| Property expenses | 231,206 | 11,242 | 1,178 | 12,420 | 243,626 |
| Rent | 42,830 | - | - | - | 42,830 |
| Salaries and wages | 1,817,329 | 331,149 | 156,452 | 487,601 | 2,304,930 |
| Special events and fundraising developme | 6,695 | 1,973 | 108,480 | 110,453 | 117,148 |
| Technology | 6,104 | 5,542 | 181 | 5,723 | 11,827 |
| Travel | 31,986 | 2,920 | 459 | 3,379 | 35,365 |
| Utilities | 102,208 | 6,114 | 1,116 | 7,230 | 109,438 |
| **TOTAL FUNCTIONAL EXPENSES** | $ 3,824,035 | 551,913 | 292,995 | 844,908 | 4,668,943 |

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

**Hospitality House of Northwest North Carolina**
**Statement of Cash Flows**
**For the Year Ended June 30, 2025**

| | |
|---|---|
| **CASH FLOWS FOR OPERATING ACTIVITIES:** | |
| Change in net assets | 45,340 |
| Adjustments to reconcile "change in net assets" to net cash provided by (used for) operating activities: | |
| Depreciation | 173,510 |
| Net realized and unrealized (gain) loss on investments | (86,076) |
| (Increase) decrease in accounts receivable | (16,557) |
| (Increase) decrease in grants receivable | 194,406 |
| (Increase) decrease in prepaid expenses | 7,000 |
| Increase (decrease) in accounts payable | (6,209) |
| Increase (decrease) in accrued liabilities | (12,273) |
| Increase (decrease) in accrued vacation | (10,638) |
| Increase (decrease) in deferred lliability - right of way | (13,455) |
| Increase (decrease) in prepaid grants and scholarships | (955,212) |
| Net cash provided by (used for) operating activities | (680,164) |
| **CASH FLOWS FOR INVESTING ACTIVITIES:** | |
| Sale of investments | 1,213,000 |
| Purchase of property and equipment | (131,473) |
| Net cash provided by (used for) investing activities | 1,081,527 |
| **CASH FLOWS FOR FINANCING ACTIVITIES:** | |
| Principal payments | (21,857) |
| Net cash provided by (used for) financing activities | (21,857) |
| NET INCREASE (DECREASE) IN CASH | 379,506 |
| **CASH, Beginning of year, restated** | 315,066 |
| **CASH, End of year** | $ 694,572 |
| Supplemental disclosure of noncash investing and financing transactions: | |
| Interest paid on notes payable | $ - |
| Cash - Unrestricted | $ 615,931 |
| Cash - Restricted | 78,641 |
| Total cash | $ 694,572 |

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

**Hospitality House of Northwest North Carolina**
**Notes to the Financial Statements**
**June 30, 2025**

## NOTE 1 – Organization and Nature of Activities:

Hospitality House of Northwest North Carolina 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.

## NOTE 2 – Summary of Significant Accounting Policies:

### Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the accounting period in which they are earned regardless of when cash is received, and recognizes expenses in the accounting period in which they are incurred regardless of when cash is disbursed.

### Financial Statement Presentation

The financial statements 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). Accordingly, the Organization presents information regarding net assets and activities according to two classes of net assets: net assets without restrictions and net assets with donor restrictions.

> Net assets without donor restrictions - the portion of net assets not subject to time or donor-imposed restrictions that may be extended for any purpose in performing the primary objective of the Organization.
>
> Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor-stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue is reported 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. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

### Cash and Cash Equivalents

Cash and cash equivalents consist of funds in checking accounts and money market demand accounts with an original maturity of three months or less. These accounts are at financial institutions that are Federal Deposit Insurance Corporation insure up to $250,000. The balances in excess of insurance limits at June 30, 2025 is $342,453. The Organization may draw on these deposits and funds at any time.

**Restricted Cash**
The Organization's cash is subject to restrictions by donors, granting agencies, and other external parties. Restricted cash balances were $78,641 as June 30, 2025. The balance represents the Organization's obligation under loan covenants between the Organization and the North Carolina Housing 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 the NCHFA and are required to be replenished withing a timeframe. The Organization also holds funds restricted for children's educations scholarships.

**Investments**
Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair value based on published or quoted market prices in the statement of financial position with gains and losses included in the statement of activities.

**Fair value of financial instruments**
The carrying amounts of cash and cash equivalents, contributions receivable, and accounts payable approximate fair value because of the short-term maturity of these financial instruments. Contributions receivable are recorded with payments due in excess of one year discounted using risk-adjusted rates to approximate fair value.

**Deferred revenue**
Deferred right of way are fees collected to be utilized in future repairs of the road.

**Deferred scholarships and grants**
Scholarship and grants that are for a future period.

**Use of Estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Functional Allocation of Expenses**
The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs and expenses have been allocated among the programs and supporting services.

**Income Tax Status**
The Organization is a nonprofit organization that is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509 (a)(1). However, the Organization is subject to tax on unrelated business income, such as income generated by its investments. For the year ended June 30, 2025, the Organization had no unrelated business income.

As of June 30, 2025, management evaluated the Organization's tax positions and concluded that the Organization had maintained its tax-exempt status and had taken no material uncertain tax positions that require adjustment to or disclosure in the financial statements.

**Grants Receivable**
Unconditional promises to give are recognized as revenues or gains in the period received, net of an allowance for uncollectible promises and presented as grants receivable in the statement of Financial Position. All are expected to be collected, thus, management has determined that no allowance for doubtful accounts is necessary.

**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 valuation allowance and a credit to the applicable accounts receivable. An allowance for uncollectible accounts has been established based on historical collection experience. As of June 30, 2025, the allowance is $0.

**Property and Equipment**
Furniture and equipment are recorded at cost. Depreciation is computed over the estimated useful lives of the property using the straight-line method.

**Subsequent Events**
The Organization has evaluated subsequent events through May 1, 2026, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2025.

**Advertising Costs**
Advertising costs are expensed when incurred. Advertising expense for the year ended June 30, 2025 was $0.

**Accrued Compensated Absences**
Vacation is awarded annually and up to 5 days can be carried over to the next year. The Organization's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest and therefore no obligation has been recorded. For the year ended June 30, 2025 accrual of paid time off in the amount of $17,854 is included in the financial statements.

**Donated services**
Generally accepted accounting principles require that the value of donated services received be recorded in the financial statements only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. No amounts have been reflected in the financial statements for certain donated volunteer services because they do not qualify for recording under the guidelines of accounting standards; however, a substantial number of volunteers have donated a significant amount of time in the Organization's program services and fundraising campaigns.

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

**Donated property and equipment**
Donations of property and equipment are recorded as support as 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 these donated assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired assets are place in service as instructed by the donor. The Organization reclassifies restricted net assets to unrestricted net assets at that time.

**NOTE 3 – Property and equipment:**
Property and equipment consist of:

| | | |
|---|---|---|
| Buildings | $ | 4,210,949 |
| Improvements | | 333,220 |
| Equipment | | 238,838 |
| Furniture and fixtures | | 198,283 |
| Construction in progress | | 1,697 |
| Land | | 855,536 |
| | | 5,838,523 |
| Less: Accumulated depreciation | | (2,200,130) |
| Property and equipment, net | $ | 3,638,393 |

Depreciation expense charged to operations was $173,510 as of June 30, 2025. The Organization's capitalization policy is $5,000.

**NOTE 4 – Liquidity and availability:**
Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date comprise the following:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 694,572 |
| Accounts receivable | | 35,854 |
| Grants receivable | | 72,170 |
| Investments | | 1,125,940 |
| Less those unavailable for general expenditures within one year due to: | | |
| Donor-restricted for NCHFA reserve requirement | | (69,395) |
| Donor-restricted for children's scholarship | | (9,246) |
| | $ | 1,849,895 |

The Organization has additional funds available through its unused line of credit which has a borrowing capacity of $50,000 with First National Bank for the year ended June 30, 2025.

**NOTE 5 – Investments:**
Accounting Standards Codification Topic 820, Fair Value Measurement, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs are quoted prices in active markets for identical investments that the Organization has the ability to access at the measurement date.

**NOTE 5 – Investments (continued):**

•Level 2 – Inputs are inputs other than quoted prices within Level 1 that are observable for the investment, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.

•Level 3 – Unobservable inputs for the investment, including estimates by partnership managers based on the best information available.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

For the valuation of mutual funds and domestic and international equity investments, the Organization used quoted prices in principal active markets for identical assets as of the valuation date

Investment transactions are recorded on trade date, which may result in both investment receivables and payables on unsettled investment trades; however, there were no such transactions as of June 30, 2025. Gains and losses on investments resulting from market fluctuations are recorded in the statement of activities in the period that such fluctuations occur. Realized and unrealized gains or losses on sales of investments are calculated on an adjusted cost basis and included within net gains from investments on the statement of activities.

The following table present investments that are measured at fair value on a recurring basis:

| | Fair Value measurements at June 30, 2025 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Money markets | $ 10,328 | 10,328 | - | - |
| Bank deposits | 86,225 | 86,225 | - | - |
| U.S. Treasuries | 1,029,387 | 1,029,387 | - | - |
| Beneficial interest in endowment held by the North Carolina Community Foundation | 193,396 | - | 193,396 | - |
| | $ 1,319,336 | 1,125,940 | 193,396 | - |

| | | |
|---|---|---|
| Interest and dividends | $ | 16,902 |
| Net Realized and unrealized gains (losses) | | 86,076 |
| | $ | 102,978 |

**NOTE 6 – Endowment Assets:**
The Organization's endowment consists of approximately two individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Interpretation of Relevant Law – The Board of Directors of the Organization has interpreted current law, Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"), as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the institution and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources of the institution
- The investment policies of the institution

Endowment net assets consist of the following:

| June 30, 2025 | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Unrestricted endowment funds | 193,396 | - | 193,396 |
| | $ 193,396 | $ - | $193,396 |

Change in endowment net assets are as follows:

| Year Ended June 30, 2025 | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Beginning endowment net assets, restated | $ 177,311 | $ - | $177,311 |
| Investment return, net | 17,941 | - | 17,941 |
| Contributions | - | - | - |
| Other changes: | | | |
| Administrative fees and expenses | (1,856) | - | (1,856) |
| Distributions | - | - | - |
| Ending endowment net assets | $ 193,396 | $ - | $193,396 |

**NOTE 7 – Revolving Line of Credit:**
The Organization has a revolving credit line totaling $50,000 with First National Bank. At June 30, 2025, the Organization had an outstanding balance of $0.

**NOTE 8 – Long-Term Debt:**
The Organization entered into a loan agreement in 2003 to purchase a building and land for $103,120. The terms of the loan require monthly payments of $0 over thirty years at an interest rate of 0%. The loan shall be reduced (forgiven) by 10% of the original amount each anniversary date of the note starting nine years prior to maturity date and then each year thereafter until maturity. The balance as of June 30, 2025 was $92,808.

The Organization entered into a loan agreement in 2003 to purchase a building for $296,880. The terms of the loan require monthly payments of $825 over thirty years at an interest rate of 0%. The balance as of June 30, 2025 was $84,841.

The Organization entered into a loan agreement in 2010 to construct a building in the amount $1,000,000. The terms of the loan require monthly payments of $0 over thirty years at an interest rate of 0%. The loan shall be forgiven after thirty years with annual passed inspections on February 1, 2042. The balance as of June 30, 2025 was 1,000,000.

Future maturities are as follows:

| | |
|---|---|
| 2026 | $ 9,896 |
| 2027 | 9,896 |
| 2028 | 9,896 |
| 2029 | 9,896 |
| 2030 | 9,896 |
| Thereafter | 1,128,169 |
| | $ 1,177,649 |

**NOTE 9 – Net Assets with Donor Restrictions:**
Net assets with donor restrictions are restricted for the following purposes as of June 30, 2025:

| | |
|---|---|
| NCHFA reserve requirement | $ 69,395 |
| WFBR | 9,246 |
| | $ 78,641 |

**NOTE 10 – Major Sources of Support:**
For the year ended June 30, 2025 approximately 69% of federal ad state grants, came from five grants. Approximately 29% of individual and organization contributions came from one donor. Approximately 81% of grants receivable came from three grantors for the year ended June 30, 2025.

**NOTE 11 – Non-cash Donations:**
For the year ended June 30, 2025, donated nonfinancial assets recognized in the Statement of Activities included:

| | Revenue recognized | Utilization in program/activities | Valuation techniques and inputs |
|---|---|---|---|
| Food | $ 141,306 | program support for clients | Average cost per pound |
| Professional services | 2,433 | program support for clients | Fair market value |
| Total | $ 143,739 | | |

There are no restrictions for contributed nonfinancial assets.

**NOTE 12 – 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 year ended June 30, 2025, which amounted to $62,090.

**NOTE 13 – Summary of Disclosure of Significant Contingencies:**
Federal and State Assisted Programs – The Organization has received proceeds from several State and Federal agencies for grants. Periodic audit 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 14 – Prior Period Adjustment:**
The Organization understated the beneficial interest in NC Community Foundation at June 30, 2024 by $45,647. The Organization wrote a check on 6/27/2024 from the checking to the beneficial interest in NC Community Foundation account, with the check clearing the beneficial interest in NC Community Foundation account on 7/2/2024. The deposit should have been recorded as a deposit in transit but instead was recorded as an expense to a fundraising account as of June 30, 2024.

**Hospitality House of Northwest North Carolina**
**Schedule of Findings and Questioned Costs**
**For the Year Ended June 30, 2025**

## II. Financial Statement Findings

### Finding 2025-1: Material Weakness – Accounting records not maintained on an accrual basis

**Criteria:** The records of the Organization should be maintained on the same basis as the financial statement reporting method of the Organization.

**Condition and context:** Management maintained the records on a hybrid cash and accrual method.

**Effect:** Material audit adjustments were required to issue the Organization's financial statements in accordance with accounting principles generally accepted in the United States of America.

**Cause:** Growth of services and number of transactions. Management and finance staff were unable to reconcile and make necessary accrual adjustments in a timely manner for grants receivables and fixed assets.

**Recommendation:** We recommend the Board enlist the aid of an outside CPA to make the appropriate journal entries to clean up past accounts receivable coding errors in the accounting software to keep pace with the programs and adhere to GAAP for financial accounting records.

**Management's response:** The Organization agrees with this finding and has already taken action.

### Finding 2025-2: Material Weakness – Prior Period Adjustment

**Criteria:** The Organization failed to properly record the balance of the Hospitality House of Northwest NC General Endowment Fund asset, held by the North Carolina Community Foundation, thus causing the balance to be understated at June 30, 2024. The income was entered into the accounting system correctly but was coded incorrectly in the accounting system. The Organization wrote a check on 6/27/2024 from the checking account to the beneficial interest in the Hospitality House of Northwest NC General Endowment Fund asset held by the North Carolina Community Foundation.

**Condition and context:** Management failed to properly record a deposit to the North Carolina Community Foundation asset.

**Effect:** Material prior period adjustment was required to correctly state the account balance.

**Cause:** Finance incorrectly reconciling account balances.

**Recommendation:** We recommend the Board allocate additional resources to the finance department to keep pace with the programs and adhere to GAAP for financial accounting records.

**Management's response:** The Organization agrees with this finding and has already taken action.

**Hospitality House of Northwest North Carolina**
**Corrective Action Plan**
**For the Year Ended June 30, 2025**

## II. Financial Statement Findings

**2025-1: Significant deficiency – Accounting records not maintained on an accrual basis**

**Responsible Individuals:** Executive Director and Board of Directors

**Corrective Action:** The Executive and Board will enlist the aid of an outside CPA to make the appropriate journal entries to clean up past accounts receivable coding errors in the accounting software.

**Expected date of completion:** Immediately.

**Finding 2025-2: Material Weakness – Prior Period Adjustment**

**Responsible Individuals:** Executive Director and Board of Directors

**Corrective Action:** The Executive and Board will continue to ensure the accuracy of the accounting records on an accrual basis.

**Expected date of completion:** Immediately.

**Hospitality House of Northwest North Carolina**
**Schedule of Prior Year Audit Findings**
**For the Year Ended June 30, 2024**

**Finding 2024-1:**

Not corrected.

**MISTY D WATSON, CPA, P.A.**
**CERTIFIED PUBLIC ACCOUNTANT**
**PO BOX 2122**
**BOONE, NORTH CAROLINA 28607**
**TELEPHONE (704) 907-5053**

INDEPENDENT AUDITOR'S 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, NC 28607

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 the Hospitality House of Northwest North Carolina, which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2025, and the related notes to the financial statements, and have issued our report thereon dated May 1, 2026

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospitality House of Northwest North Carolina'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

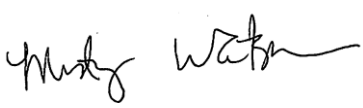
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did identify certain deficiencies in internal control described in Finding 2025-1 and 2025-2 that we consider a material weakness.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospitality House of Northwest North Carolina's 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 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 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.



Boone, North Carolina
May 1, 2026