

Audited
Financial
Statements

June 30,
2023

Hoffman Homes, Inc.



Hoffman Homes for Youth

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hoffman Homes, Inc.
Littlestown, Pennsylvania

Opinion

We have audited the accompanying financial statements of the Hoffman Homes, Inc. (a Pennsylvania nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoffman Homes, Inc. as of June 30, 2023 and 2022, and the changes in net assets and its 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. 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 Hoffman Homes, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe 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 these 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 Hoffman Homes, Inc.'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 Responsibility 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 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement 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 Hoffman Homes, Inc.'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hoffman Homes, Inc.'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.

Smith Elliott Kearns + Company, LLC

York, Pennsylvania
October 2, 2023

HOFFMAN HOMES, INC.
Statements of Financial Position
June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 2,933,583 | \$ 936,580 |
| Accounts receivable - fee for service | 1,716,904 | 1,253,522 |
| Accounts receivable - overpayment of pension liability | 271,336 | - |
| Prepaid expenses | 128,173 | 64,471 |
| Food inventory | 776 | 2,991 |
| Total current assets | <u>5,050,772</u> | <u>2,257,564</u> |
| Restricted Cash | 467,891 | 170,322 |
| Investments | 6,362,867 | 5,809,789 |
| Property, Plant and Equipment | | |
| Property, plant and equipment - at cost | 15,724,573 | 15,561,145 |
| Less: accumulated depreciation | <u>(13,659,626)</u> | <u>(13,378,910)</u> |
| Net property, plant and equipment | 2,064,947 | 2,182,235 |
| Other Assets | | |
| Beneficial interest in perpetual trusts | 2,674,806 | 2,594,319 |
| Pension asset | 269,151 | - |
| Interest rate swap asset | <u>221,037</u> | <u>24,300</u> |
| | 3,164,994 | 2,618,619 |
| TOTAL ASSETS | <u>\$ 17,111,471</u> | <u>\$ 13,038,529</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 58,496 | \$ 37,359 |
| Accrued payroll and related benefits | 713,415 | 607,666 |
| Current portion of long-term debt | 81,226 | - |
| Deferred revenue | 776 | 2,991 |
| Total current liabilities | <u>853,913</u> | <u>648,016</u> |
| Long-Term Liabilities | | |
| Long-term debt, net of current portion | 2,729,426 | 2,810,652 |
| Pension liability | - | 57,459 |
| Total long-term liabilities | <u>2,729,426</u> | <u>2,868,111</u> |
| TOTAL LIABILITIES | <u>3,583,339</u> | <u>3,516,127</u> |
| NET ASSETS | | |
| Without donor restrictions | 9,527,958 | 5,898,739 |
| With donor restrictions | <u>4,000,174</u> | <u>3,623,663</u> |
| TOTAL NET ASSETS | <u>13,528,132</u> | <u>9,522,402</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 17,111,471</u> | <u>\$ 13,038,529</u> |

HOFFMAN HOMES, INC.
Statement of Activities
Year Ended June 30, 2023

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|----------------------|
| REVENUES AND GAINS | | | |
| Fees for services | \$ 11,755,667 | \$ - | \$ 11,755,667 |
| Education income | 1,567,526 | - | 1,567,526 |
| Contributions | 292,060 | 420,024 | 712,084 |
| Bequests | 37,084 | - | 37,084 |
| In-kind donations | 49,659 | - | 49,659 |
| Donated commodities | 19,835 | - | 19,835 |
| Food reimbursement | 197,639 | - | 197,639 |
| Bad debt recovery | 245,818 | - | 245,818 |
| Net investment return | 579,248 | - | 579,248 |
| Irrevocable trust fund income | 401,567 | - | 401,567 |
| Changes in beneficial interest in perpetual trusts | - | 80,487 | 80,487 |
| Miscellaneous income | 7,943 | - | 7,943 |
| Net assets released from restrictions: | | | |
| Restrictions satisfied by fulfilling purpose | 124,000 | (124,000) | - |
| Total revenues and gains | 15,278,046 | 376,511 | 15,654,557 |
| EXPENSES | | | |
| Program expenses | | | |
| Clinical services | 6,032,389 | - | 6,032,389 |
| Culinary | 384,814 | - | 384,814 |
| Healthcare | 945,752 | - | 945,752 |
| Operations | 846,574 | - | 846,574 |
| Education (Hoffman Academy) | 1,438,501 | - | 1,438,501 |
| Total program expenses | 9,648,030 | - | 9,648,030 |
| Supporting services | | | |
| Administration | 2,437,270 | - | 2,437,270 |
| Development (fundraising) | 309,324 | - | 309,324 |
| Total supporting services | 2,746,594 | - | 2,746,594 |
| Total expenses | 12,394,624 | - | 12,394,624 |
| OTHER CREDITS AND CHARGES | | | |
| Defined benefit plan changes | 277,724 | - | 277,724 |
| Overpayment of pension liability | 271,336 | - | 271,336 |
| Unrealized gain on interest rate swaps | 196,737 | - | 196,737 |
| Total other credits and charges | 745,797 | - | 745,797 |
| CHANGE IN NET ASSETS | 3,629,219 | 376,511 | 4,005,730 |
| NET ASSETS AT BEGINNING OF YEAR | 5,898,739 | 3,623,663 | 9,522,402 |
| NET ASSETS AT END OF YEAR | \$ 9,527,958 | \$ 4,000,174 | \$ 13,528,132 |

HOFFMAN HOMES, INC.
Statement of Activities
Year Ended June 30, 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|---------------------|
| REVENUES AND GAINS | | | |
| Fees for services | \$ 9,306,188 | \$ - | \$ 9,306,188 |
| Education income | 1,234,462 | - | 1,234,462 |
| Contributions | 557,160 | 128,764 | 685,924 |
| Bequests | 11,902 | - | 11,902 |
| In-kind donations | 50,095 | - | 50,095 |
| Donated commodities | 13,568 | - | 13,568 |
| Food reimbursement | 184,046 | - | 184,046 |
| Paycheck Protection Plan and Provider Relief Funding | 418,861 | - | 418,861 |
| Net investment return | (877,482) | - | (877,482) |
| Irrevocable trust fund income | 159,313 | - | 159,313 |
| Changes in beneficial interest in perpetual trusts | - | (594,569) | (594,569) |
| Miscellaneous income | 20,210 | - | 20,210 |
| Net assets released from restrictions: | | | |
| Restrictions satisfied by fulfilling purpose | 81,925 | (81,925) | - |
| Total revenues and gains | 11,160,248 | (547,730) | 10,612,518 |
| EXPENSES | | | |
| Program expenses | | | |
| Clinical services | 5,565,362 | - | 5,565,362 |
| Culinary | 338,014 | - | 338,014 |
| Healthcare | 977,661 | - | 977,661 |
| Operations | 884,348 | - | 884,348 |
| Education (Hoffman Academy) | 1,427,917 | - | 1,427,917 |
| Total program expenses | 9,193,302 | - | 9,193,302 |
| Supporting services | | | |
| Administration | 2,762,142 | - | 2,762,142 |
| Development (fundraising) | 289,101 | - | 289,101 |
| Total supporting services | 3,051,243 | - | 3,051,243 |
| Total expenses | 12,244,545 | - | 12,244,545 |
| OTHER CREDITS AND CHARGES | | | |
| Defined benefit plan changes | 423,331 | - | 423,331 |
| Unrealized gain on interest rate swaps | 144,275 | - | 144,275 |
| Total other credits and charges | 567,606 | - | 567,606 |
| CHANGE IN NET ASSETS | (516,691) | (547,730) | (1,064,421) |
| NET ASSETS AT BEGINNING OF YEAR | <u>6,415,430</u> | <u>4,171,393</u> | <u>10,586,823</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 5,898,739</u> | <u>\$ 3,623,663</u> | <u>\$ 9,522,402</u> |

HOFFMAN HOMES, INC.
Statement of Functional Expenses
Year Ended June 30, 2023

| | Program Expenses | | | | | Supporting Services | | | Total |
|-------------------------------------|---------------------|-------------------|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------------|----------------------|
| | Clinical Services | Culinary | Healthcare | Operations | Education (Academy) | Total | Administration | Development (Fundraising) | |
| Salaries | \$ 4,265,253 | \$ 113,724 | \$ 736,672 | \$ 287,001 | \$ 1,105,469 | \$ 6,508,119 | \$ 1,050,169 | \$ 140,037 | \$ 7,698,325 |
| Employee benefits* | 1,127,745 | 32,151 | 157,023 | 68,419 | 203,729 | 1,589,067 | 170,164 | 29,108 | 1,788,339 |
| Contracted services*** | 433,643 | 45 | 8,077 | - | 26,496 | 468,261 | 202,844 | 31,800 | 702,905 |
| Bad debt expense | - | - | - | - | - | - | 175,154 | - | 175,154 |
| Depreciation expense | - | - | - | - | - | - | 280,716 | - | 280,716 |
| Utilities** | 2,652 | - | - | 309,791 | - | 312,443 | 51,094 | - | 363,537 |
| Food and food service supplies | 20,125 | 237,265 | - | 310 | - | 257,700 | - | - | 257,700 |
| Insurance - property and liability | - | - | - | - | - | - | 211,953 | - | 211,953 |
| Computer expenses | 2,202 | - | - | - | 18,457 | 20,659 | 45,637 | 1,342 | 67,638 |
| Housekeeping and sanitation | 59,326 | - | - | 44,712 | - | 104,038 | - | - | 104,038 |
| Medical/dental supplies and expense | 7,900 | - | 39,043 | - | - | 46,943 | - | - | 46,943 |
| Bank fees | - | - | - | - | - | - | 19,255 | 929 | 20,184 |
| Office supplies/equipment | 13,304 | - | 1,939 | 628 | 81,238 | 97,109 | 12,270 | 3,381 | 112,760 |
| Maintenance and repairs | - | 1,629 | - | 73,549 | - | 75,178 | - | - | 75,178 |
| Staff development/recruitment | 79,051 | - | 2,998 | 275 | 3,112 | 85,436 | 4,690 | 950 | 91,076 |
| In-kind donations | - | - | - | 25,392 | - | 25,392 | - | 24,267 | 49,659 |
| Interest expense | - | - | - | - | - | - | 154,382 | - | 154,382 |
| Lease expense | - | - | - | - | - | - | 35,464 | - | 35,464 |
| Development | - | - | - | - | - | - | 283 | 62,555 | 62,838 |
| Membership fees | 10,235 | - | - | - | - | 10,235 | 7,353 | 1,485 | 19,073 |
| Advertising | - | - | - | - | - | - | 1,063 | 10,820 | 11,883 |
| Postage | 32 | - | - | - | - | 32 | 14,430 | - | 14,462 |
| Travel/vehicle expense | 5,500 | - | - | 36,497 | - | 41,997 | 3 | - | 42,000 |
| Miscellaneous expense | 555 | - | - | - | - | 555 | 346 | 2,650 | 3,551 |
| Behavior management | 4,866 | - | - | - | - | 4,866 | - | - | 4,866 |
| | <u>\$ 6,032,389</u> | <u>\$ 384,814</u> | <u>\$ 945,752</u> | <u>\$ 846,574</u> | <u>\$ 1,438,501</u> | <u>\$ 9,648,030</u> | <u>\$ 2,437,270</u> | <u>\$ 309,324</u> | <u>\$ 12,394,624</u> |

* Includes Social Security, Unemployment Tax, Workers Compensation, Medical, Life, Dental, Pension and Employee Assistance Program.

** Includes telephone, electricity, fuel oil, water & sewer, cable TV and propane gas.

*** Includes legal, accounting, psychiatric and other professional services.

HOFFMAN HOMES, INC.
Statement of Functional Expenses
Year Ended June 30, 2022

| | Program Expenses | | | | | | Supporting Services | | |
|-------------------------------------|---------------------|-------------------|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------------|----------------------|
| | Clinical Services | Culinary | Healthcare | Operations | Education (Academy) | Total | Administration | Development (Fundraising) | Total |
| Salaries | \$ 4,313,818 | \$ 107,878 | \$ 748,006 | \$ 261,671 | \$ 1,156,747 | \$ 6,588,120 | \$ 854,324 | \$ 145,879 | \$ 7,588,323 |
| Employee benefits* | 1,096,245 | 30,789 | 158,941 | 52,183 | 203,752 | 1,541,910 | 180,827 | 28,331 | 1,751,068 |
| Contracted services*** | 24,632 | - | 10,585 | - | 29,158 | 64,375 | 528,373 | 3,300 | 596,048 |
| Bad debt expense | - | - | - | - | - | - | 251,306 | - | 251,306 |
| Depreciation expense | - | - | - | - | - | - | 273,924 | - | 273,924 |
| Utilities** | 4,592 | - | - | 312,417 | - | 317,009 | 46,834 | - | 363,843 |
| Food and food service supplies | 26,141 | 198,396 | - | - | - | 224,537 | 465 | - | 225,002 |
| Insurance - property and liability | - | - | - | - | - | - | 161,564 | - | 161,564 |
| Computer expenses | - | - | - | 531 | 3,538 | 4,069 | 198,922 | 4,860 | 207,851 |
| Housekeeping and sanitation | - | - | 490 | 98,691 | - | 99,181 | 5,730 | - | 104,911 |
| Medical/dental supplies and expense | 9,775 | - | 55,212 | 150 | - | 65,137 | 21 | - | 65,158 |
| Bank fees | - | - | - | - | - | - | 74,641 | 2 | 74,643 |
| Office supplies/equipment | 18,914 | - | 2,125 | 4,643 | 33,123 | 58,805 | 19,751 | 1,069 | 79,625 |
| Maintenance and repairs | 173 | 951 | - | 92,174 | - | 93,298 | 40 | - | 93,338 |
| Staff development/recruitment | 51,873 | - | 2,220 | 323 | 1,599 | 56,015 | 11,013 | 190 | 67,218 |
| In-kind donations | - | - | - | 29,866 | - | 29,866 | - | 20,229 | 50,095 |
| Interest expense | - | - | - | - | - | - | 40,458 | - | 40,458 |
| Lease expense | 12 | - | - | - | - | 12 | 36,147 | - | 36,159 |
| Development | - | - | - | - | - | - | - | 64,872 | 64,872 |
| Membership fees | 15,964 | - | - | - | - | 15,964 | 10,348 | 1,407 | 27,719 |
| Advertising | 915 | - | - | - | - | 915 | 29,008 | 15,684 | 45,607 |
| Postage | - | - | 10 | - | - | 10 | 20,035 | - | 20,045 |
| Travel/vehicle expense | 506 | - | 72 | 31,533 | - | 32,111 | 2,944 | 38 | 35,093 |
| Miscellaneous expense | 1,802 | - | - | 166 | - | 1,968 | 15,467 | 3,240 | 20,675 |
| | <u>\$ 5,565,362</u> | <u>\$ 338,014</u> | <u>\$ 977,661</u> | <u>\$ 884,348</u> | <u>\$ 1,427,917</u> | <u>\$ 9,193,302</u> | <u>\$ 2,762,142</u> | <u>\$ 289,101</u> | <u>\$ 12,244,545</u> |

* Includes Social Security, Unemployment Tax, Workers Compensation, Medical, Life, Dental, Pension and Employee Assistance Program.

** Includes telephone, electricity, fuel oil, water & sewer, cable TV and propane gas.

*** Includes legal, accounting, psychiatric and other professional services.

HOFFMAN HOMES, INC.
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 4,005,730 | \$ (1,064,421) |
| Adjustments to reconcile change in net assets provided (used) by operating activities: | | |
| Depreciation expense | 280,716 | 273,924 |
| Loss on sale of property, plant and equipment | - | 5,961 |
| Bad debt expense (recovery) | (70,664) | 251,306 |
| Net realized and unrealized (gain) on investments | (317,493) | 1,147,798 |
| Unrealized (gain) on interest rate swaps | (196,737) | (144,275) |
| Changes in beneficial interest in perpetual trusts | (80,487) | 594,569 |
| (Increase) decrease in assets: | | |
| Accounts receivable - fee for service | (392,718) | (278,243) |
| Accounts receivable - overpayment of pension liability | (271,336) | - |
| Prepaid expenses | (63,702) | (47,810) |
| Food inventory | 2,215 | 3,059 |
| Pension asset | (269,151) | - |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 21,137 | (23,347) |
| Accrued payroll and related benefits | 105,749 | 24,868 |
| Deferred revenue | (2,215) | (3,059) |
| Pension liability | (57,459) | (1,546,251) |
| Net Cash Provided (Used) By Operating Activities | <u>2,693,585</u> | <u>(805,921)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash purchases of property, plant and equipment | (163,428) | (122,873) |
| Purchase of investments | (1,825,821) | (2,733,525) |
| Proceeds from sale of investments | 1,590,236 | 2,627,300 |
| Net Cash (Used) By Investing Activities | <u>(399,013)</u> | <u>(229,098)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term debt | - | 2,888,142 |
| Payments on long-term debt | - | (2,074,002) |
| Net Cash Provided By Financing Activities | <u>-</u> | <u>814,140</u> |
| Net Increase (Decrease) In Cash and Cash Equivalents | 2,294,572 | (220,879) |
| CASH AT BEGINNING OF YEAR | <u>1,106,902</u> | <u>1,327,781</u> |
| CASH AT END OF YEAR | <u>\$ 3,401,474</u> | <u>\$ 1,106,902</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash payments for interest | <u>\$ 154,382</u> | <u>\$ 40,458</u> |

HOFFMAN HOMES, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hoffman Homes, Inc. (“Organization”) is a private, not-for-profit, Pennsylvania Corporation related to the United Church of Christ.

The purpose of Hoffman Homes, Inc. is to provide comprehensive psychiatric care, treatment, and education to emotionally and behaviorally troubled children and their families. Hoffman Homes, Inc. is committed to providing services that are cost effective and responsive to the unique needs of each child, always in close cooperation with the parents/guardians, referring agencies, case management organizations, school systems, and funding sources. Hoffman Homes, Inc. grants credit to the agencies that place the youth in their facilities. The agencies that purchase services from Hoffman Homes, Inc. are located in Pennsylvania.

Hoffman Homes, Inc. also operates the Hoffman Academy (“Academy”) under the Pennsylvania State Board of Academic Schools. The Academy provides differentiated instruction to meet the diverse needs of students with complex behavioral concerns. All programs are operated according to the guidelines established by the Pennsylvania Department of Revenue and the Pennsylvania Department of Education. Students have their needs assessed and then receive instruction designed specifically to their academic level.

Hoffman Homes, Inc. also offers a shelter program to males and females ages seven through twenty-one who are in the custody of young adult or youth services. The shelter provides placement for individuals while the county pursues a permanent living resource. Individuals receive guidance from staff trained in trauma-informed practices to provide support, hope, and resources to help displaced youth who are often experiencing emotional distress and mental health challenges.

Hoffman Homes, Inc. also provides a transitional living program for females ages sixteen through twenty-one. This program provides skill development and support to effectively transition youth and young adults into the community setting. This new program allows the Organization to extend the same feelings of hope and peace to older individuals while guiding them to thrive in their local communities.

Basis of Accounting

The financial statements of Hoffman Homes, Inc have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, support is recognized when services are rendered, and expenses are recognized when incurred.

Financial Statement Presentation

The Organization reports net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations, including those that are Board designated.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, the Organization reports the transfer on the Statement of Activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less. There are no cash equivalents as of June 30, 2023 and 2022.

Restricted Cash

Amount represents cash that has been restricted by donors, as well as amounts received for escrow payments.

Accounts Receivable – Fee for Service

Accounts receivable balances are reviewed by management monthly. Any account over sixty days past due based on contractual terms is analyzed. Management believes that at June 30, 2023 and 2022, no allowance is necessary as all accounts are deemed collectible. Account balances generally are written off when management determines such balances uncollectible.

Accounts Receivable – Overpayment of pension liability

Accounts receivable represents the Organizations overpayments into the defined benefit plan, further described in Note 15. The plan was terminated with a settlement date of June 30, 2023.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period the promise is made. Conditional promises to give are recognized when the conditions on which they depend on are substantially met. There were no promises to give as of June 30, 2023 and 2022.

Property and Equipment

Hoffman Homes, Inc. capitalizes all expenditures for property and equipment with a useful life greater than one year and a cost in excess of \$1,000. Purchased property and equipment are carried at cost. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the respective assets.

Equipment, new construction costs, furnishings, building improvements, land, and vehicles are stated at cost. Expenditures for renewals and improvements that significantly add to productive capacity or extend the useful life of the asset are capitalized. Maintenance and repairs are charged to expense as incurred. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts, and the resulting gain or loss is reflected in the Statements of Activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Donations of property and equipment are recorded as contributions at their estimated fair value on the date received. Hoffman Homes, Inc. does not apply time restrictions with respect to donated property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of assets as follows:

| | Years |
|-------------------------|--------------|
| Buildings | 5 - 30 |
| Furniture and fixtures | 5 - 20 |
| Equipment | 5 - 20 |
| Vehicles | 3 - 7 |
| Land improvements | 5 - 20 |
| Water tower | 25 |
| Sewage treatment plants | 30 |

Investments

Investments in debt and equity securities with readily determinable fair values are reported at fair value. The unrealized gain or loss is reported as an increase or decrease in net assets without restrictions unless their use is restricted by explicit donor-imposed stipulations or by law. The realized gain or loss on the sale of investments is computed on a specific identification basis and is included as an increase or decrease in net assets without restrictions unless the use is restricted by donor-imposed stipulations or by law.

Investments of the Organization are exposed to various risks, such as interest rate, market, currency, and credit risks. Market risks include global events, such as a pandemic or international conflict. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of the investment securities will occur in the near term and that such changes could materially affect investment assets reported in the financial statements.

Beneficial Interest in Perpetual Trusts

Hoffman Homes, Inc. recognizes its interests in irrevocable perpetual trust agreements of which it has been named an income beneficiary. The assets reported in the Statements of Financial Position represent Hoffman Homes, Inc.'s beneficial interest in the fair market value of the irrevocable perpetual trusts. Upon Hoffman Homes, Inc. being named an income beneficiary of an irrevocable perpetual trust, the initial interest is recognized as net assets with donor restrictions. Hoffman Homes, Inc. also recognizes changes in the fair market value of its beneficial interests in perpetual trusts in the net assets with donor restrictions section of the Statements of Activities.

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Employees of the Organization are entitled to paid time off and sick bank days. It is the Organization's policy to pay accrued paid time off when an employee resigns with proper notice. Sick bank days are only available for use during an extended illness and are not paid out upon separation of employment. The liability resulting from these policies has been recorded in the financial statements.

Revenue Recognition

The Organization implemented Accounting Standard Board Update (ASU) 2014-09 Revenue From Contracts with Customers, (Topic 606) (ASC 606) during the year ended June 30, 2021. The sources of revenue for the Organization are contributions and grants, fundraising, program fees, interest income, and miscellaneous income. Certain revenue transactions are now recognized as earned based on contractual terms, as transactions occur, or as services are provided. All revenues determined to be in the scope of ASC 606 are presented within the Statements of Activities and are recognized as the performance obligations are met.

Following is further detail of the various types of revenue the Organization earns and when it is recognized under ASC 606.

Program fees –revenue received is not recognized until the revenue is earned, which is at the time when services are provided. These amounts are mainly billed to insurance companies and other responsible parties once services have been provided. Any unearned amounts for program income payments would be included in deferred revenue.

Accounts receivable related to the above revenue stream is as follows as of:

| | Accounts Receivable |
|-------------------|--------------------------------|
| July 1, 2021 | |
| Fees for services | \$ 1,038,407 |
| Education income | 188,178 |
| | <u>\$ 1,226,585</u> |
| June 30, 2022 | |
| Fees for services | \$ 1,129,691 |
| Education income | 123,831 |
| | <u>\$ 1,253,522</u> |
| July 1, 2022 | |
| Fees for services | \$ 1,129,691 |
| Education income | 123,831 |
| | <u>\$ 1,253,522</u> |
| June 30, 2023 | |
| Fees for services | \$ 1,405,329 |
| Education income | 311,575 |
| | <u>\$ 1,716,904</u> |

Contributions and grants, fundraising, interest income, and miscellaneous income are recognized on the accrual basis, but these revenues are outside the scope of ASC 606.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Deferred revenue includes excess federal commodities (food inventory) on hand at the end of the fiscal year.

Functional Expense Classification

The costs of providing the various programs and other activities are summarized on a functional basis in the Statements of Activities and Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Supporting services consist of administrative and development (fundraising) expenses. Expenses require allocation on a reasonable basis that is consistently applied. Expenses are generally allocated on the basis of estimates of time and effort.

Advertising

Advertising costs are expensed when incurred. Advertising costs were \$11,883 and \$45,607 as of June 30, 2023 and 2022, respectively.

Concentration of Credit Risk

The Organization's cash balances in financial institutions located in Pennsylvania, at times, may exceed the Federal Deposit Corporation (FDIC) insured limits. Management regularly monitors the financial condition of the financial institutions, along with their cash balances, in order to keep potential risks to a minimum. Management does not believe that there is a significant risk of loss as a result of these excess deposits and has not experienced any such losses on these accounts.

Income Taxes

No provision is made for income taxes because the Organization is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. The Organization is not deemed to be a private foundation by the Internal Revenue Service.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize the tax liability if the Organization has taken uncertain positions that more likely than not would not be sustained upon examination by the government authority. The Organization is subject to routine audits by taxing jurisdictions, generally for a period of three years after the returns are filed; however, there are currently no audits for any tax periods in progress.

Use of 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 the disclosure of contingent assets and liabilities, if any, 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.

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation. Such reclassifications had no effect on the previously reported change in net assets.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------|---------------------|---------------------|
| Buildings | \$ 10,511,971 | \$ 10,510,433 |
| Furniture and fixtures | 1,834,122 | 1,763,276 |
| Equipment | 1,733,410 | 1,642,366 |
| Vehicles | 311,507 | 311,507 |
| Land improvements | 985,670 | 985,670 |
| Water tower | 103,893 | 103,893 |
| Sewage treatment plants | 244,000 | 244,000 |
| | <u>15,724,573</u> | <u>15,561,145</u> |
| Less accumulated depreciation | <u>(13,659,626)</u> | <u>(13,378,910)</u> |
| Net property, plant and equipment | <u>\$ 2,064,947</u> | <u>\$ 2,182,235</u> |

Depreciation expense amounted to \$280,716 and \$273,924 for 2023 and 2022, respectively.

NOTE 3 INVESTMENTS

Investments were comprised of the following at June 30:

| | <u>2023</u> | | |
|------------------------------|---------------------|----------------------------------|---------------------------------------|
| | <u>Cost</u> | <u>Fair Market Value</u> | <u>Unrealized Gain (Loss)</u> |
| Money market funds | \$ 199,000 | \$ 199,000 | \$ - |
| Mutual Funds - fixed income | 2,147,509 | 1,979,372 | (168,137) |
| Equity mutual and stock fund | 3,519,890 | 4,184,495 | 664,605 |
| | <u>\$ 5,866,399</u> | <u>\$ 6,362,867</u> | <u>\$ 496,468</u> |
| | <u>2022</u> | | |
| | <u>Cost</u> | <u>Fair Market Value</u> | <u>Unrealized Gain (Loss)</u> |
| Money market funds | \$ 308,298 | \$ 308,298 | \$ - |
| Mutual Funds - fixed income | 2,110,793 | 1,924,423 | (186,370) |
| Equity mutual and stock fund | 3,308,805 | 3,577,068 | 268,263 |
| | <u>\$ 5,727,896</u> | <u>\$ 5,809,789</u> | <u>\$ 81,893</u> |

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 4 BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Organization has recorded its beneficial interest in the perpetual trusts as net assets with donor restrictions that are perpetual in nature. Distributions from the trusts are reported as without donor restrictions and the change in the Organization's proportionate share of the fair value of the trusts' assets is recognized as with donor restrictions recognizing the gain or loss and are reported as change in beneficial interest in perpetual trusts on the statement of activities. The fair value of the Organization's beneficial interest in the trust assets was \$2,674,806 and \$2,594,319 at June 30, 2023 and 2022, respectively.

The following provides income distributions from the perpetual trusts attributed to the years ended June 30:

| <u>Trustee</u> | <u>Trust</u> | <u>2023</u> | <u>2022</u> |
|---------------------------|----------------------------|-------------------|-------------------|
| Fulton Financial Advisors | John L Gerber | \$ 32,523 | \$ 37,353 |
| BB&T Jesse Park | Lola Crawford | 19,736 | 21,998 |
| PNC | Katherine H Glatfelter | 7,345 | 14,568 |
| Wilmington Trust | Florence & Stewart Bortner | - | 9,654 |
| BB&T Jesse Park | Francis A. Crawford | 14,667 | 12,205 |
| Fulton Financial Advisors | Crouse Trust | 7,012 | 8,873 |
| James and Sharon Franklin | Frances C. Mowery | 9,887 | 15,946 |
| Trust Corp America | Estella Yingling | 5,995 | 24,895 |
| Iventrust | Various Customer | - | 2,863 |
| PNC | Emma M Duttera | 3,095 | 2,921 |
| Other | Various Trusts | 301,307 * | 8,037 |
| | | <u>\$ 401,567</u> | <u>\$ 159,313</u> |

* Includes a one-time estate giving of \$288,515 from Beverly Ann Smith estate.

NOTE 5 FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides 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) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- 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 by correlation or other means.

Level 3 – Inputs that are unobservable inputs for the asset or liability.

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2023 and 2022.

Money market funds: Money markets are valued at stable \$1.00 net asset value which is the value at which the fund is traded and approximates fair value based on the fair value of the underlying investments.

Equity and fixed income mutual funds and stock funds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Beneficial interest in perpetual trusts: Valued at net asset value (NAV) of the percentage owned of the underlying assets of the trusts. The trusts are invested in a variety of fixed income (both domestic and international), equity (both domestic and international) and mutual funds whereby the investment policies employed are meant to achieve long-term growth while providing modest investment income. There are no unfunded commitments related to the trusts and the trust assets are to be maintained in perpetuity such that the Organization can never invade the principal.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30:

| | Assets at Fair Value as of June 30, 2023 | | | |
|--|--|---------------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market funds | \$ 199,000 | \$ - | \$ - | \$ 199,000 |
| Mutual funds - fixed income | 1,979,371 | - | - | 1,979,371 |
| Equity mutual and stock fund | | | | |
| Real estate | 3,989 | - | - | 3,989 |
| Large growth | 435,916 | - | - | 435,916 |
| Diversified emerging markets | 201,321 | - | - | 201,321 |
| Mid-cap blend | 303,454 | - | - | 303,454 |
| Mid-cap value | 379,031 | - | - | 379,031 |
| Large blend | 1,472,301 | - | - | 1,472,301 |
| Foreign large growth | 131,852 | - | - | 131,852 |
| Small value | 192,258 | - | - | 192,258 |
| Small growth | 131,036 | - | - | 131,036 |
| Large value | 598,453 | - | - | 598,453 |
| Foreign large value | 201,219 | - | - | 201,219 |
| Small blend | 133,666 | - | - | 133,666 |
| Beneficial Interests in Perpetual Trusts | - | 2,674,806 | - | 2,674,806 |
| Total assets at fair value | <u>\$ 6,362,867</u> | <u>\$ 2,674,806</u> | <u>\$ -</u> | <u>\$ 9,037,673</u> |

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

| | Assets at Fair Value as of June 30, 2022 | | | |
|--|--|------------------|----------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market funds | \$ 308,298 | \$ - | \$ - | \$ 308,298 |
| Mutual funds - fixed income | 1,924,422 | - | - | 1,924,422 |
| Equity mutual and stock fund | | | | |
| Real estate | 121,700 | - | - | 121,700 |
| Large growth | 330,730 | - | - | 330,730 |
| Diversified emerging markets | 104,741 | - | - | 104,741 |
| Mid-cap blend | 227,456 | - | - | 227,456 |
| Mid-cap value | 199,066 | - | - | 199,066 |
| Foreign large blend | 109,638 | - | - | 109,638 |
| Large blend | 991,880 | - | - | 991,880 |
| Foreign large growth | 115,580 | - | - | 115,580 |
| Small value | 168,263 | - | - | 168,263 |
| Small growth | 115,461 | - | - | 115,461 |
| Large value | 971,379 | - | - | 971,379 |
| Foreign large value | 121,175 | - | - | 121,175 |
| Beneficial Interests in Perpetual Trusts | - | 2,594,319 | - | 2,594,319 |
| Total assets at fair value | \$ 5,809,789 | \$ 2,594,319 | \$ - | \$ 8,404,108 |

NOTE 6 ESCROW ACCOUNTS PAYABLE

The youths' individual account balances are maintained by the Organization's business office. This money may be withdrawn for personal needs during a youth's stay. At the time of discharge, the total amount held in escrow for the youth is returned to the youth, along with interest accrued on the deposit. The escrow checking account had a balance of \$1,719 and \$174, respectively as of June 30, 2023 and 2022. The escrow accounts payable balances were \$1,835 and \$166, respectively, as of June 30, 2023 and 2022. The escrow checking account is included in Restricted Cash on the Statements of Financial Position. The escrow payable account is included in Accounts Payable on the Statement of Financial Position.

NOTE 7 LINE OF CREDIT

The Organization established a \$750,000 line of credit with PNC Bank in March 2022. The variable interest rate is calculated using the Daily BSBY + 1.75%, or 6.97% and 3.36%, which was the rate effective on June 30, 2023 and 2022 respectively. The line is secured by all assets of the Organization. At June 30, 2023 and 2022 there were no borrowings on the line.

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 8 LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2023 and 2022:

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| PNC Bank Convertible Line of Credit | | |
| Convertible Line of Credit March 2022 \$4,100,000; monthly interest payments only due through April 2024 date of conversion; interest at Bloomberg Short-Term Bank Yield plus 1.50%, which was 6.72% and 3.11% at June 30, 2023 and 2022, respectively; secured by all assets of the Organization; due March 2034. | \$ 2,810,652 | \$ 2,810,652 |
| Less: Current maturities | <u>(81,226)</u> | <u>-</u> |
| | <u>\$ 2,729,426</u> | <u>\$ 2,810,652</u> |

Future maturities of the long-term debt are as follows:

| | |
|------------|---------------------|
| 2024 | \$ 81,226 |
| 2025 | 339,610 |
| 2026 | 354,007 |
| 2027 | 369,508 |
| 2028 | 385,720 |
| Thereafter | <u>1,280,581</u> |
| | <u>\$ 2,810,652</u> |

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows as of June 30:

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Subject to the passage of time | | |
| Bequest to be held in trust for 50 years | \$ 19,304 | \$ 19,304 |
| Subject to expenditure for specified purpose | | |
| Building/equipment repairs | 66,487 | 51,005 |
| Music therapy | 1,546 | 1,679 |
| Creative therapies | 32,234 | 15,595 |
| Emergency preparedness | - | 4,788 |
| Medical expenses | 1,522 | 1,564 |
| Household goods and supplies | 1,627 | 2,777 |
| Appliances | - | 4 |
| COVID-19 | 26,203 | 33,767 |
| Provider relief funds | - | 58,632 |
| Resource library | - | 37 |
| Employee training and retention | 335,253 | - |
| Academy | <u>1,300</u> | <u>300</u> |
| | 466,172 | 170,148 |
| Perpetual in Nature | | |
| Scholarships | 7,785 | 7,785 |
| Contributions with unrestricted uses of earnings | 832,107 | 832,107 |
| Beneficial interest in perpetual trusts | <u>2,674,806</u> | <u>2,594,319</u> |
| | 3,514,698 | 3,434,211 |
| Total net assets with donor restrictions | <u>\$ 4,000,174</u> | <u>\$ 3,623,663</u> |
| Restricted cash | \$ 466,172 | \$ 170,148 |
| Investments | 859,196 | 859,196 |
| Perpetual trusts held by third-parties | <u>2,674,806</u> | <u>2,594,319</u> |
| | <u>\$ 4,000,174</u> | <u>\$ 3,623,663</u> |

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 10 LIQUIDITY AND AVAILABILITY

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows, as of June 30:

| | <u>2023</u> | <u>2022</u> |
|---|----------------------|---------------------|
| Cash (unrestricted) | \$ 2,933,583 | \$ 936,580 |
| Accounts receivable | 1,988,240 | 1,253,522 |
| Investments | <u>6,362,867</u> | <u>5,809,789</u> |
| | 11,284,690 | 7,999,891 |
| Less: investment amounts restricted by donors | <u>(859,196)</u> | <u>(859,196)</u> |
| Total available for general expenditures | <u>\$ 10,425,494</u> | <u>\$ 7,140,695</u> |

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. Restricted cash and investments in the amount of \$1,327,087 and \$1,029,518, respectively, as of June 30, 2023 and 2022 have been excluded above, because they have been designated by donors for certain purpose restrictions as described further in Note 9. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due and management periodically reviews the Organization's liquid asset needs. Also, as more fully described in Note 7, the Organization has a line of credit with availability of \$750,000 at June 30, 2023 and 2022, and a convertible line of credit with availability of \$1,289,348 at June 30, 2022 and 2022 described in Note 8, which it could draw upon in the event of an unanticipated liquidity need.

NOTE 11 COVID-19/CONTINUED STIMULUS FUNDING /CONTINGENCIES

The Organization continues to monitor developments, including government requirements and recommendations at the national, state and local level to operate as safely as possible as it relates to COVID19. Due to these circumstances, the Organization has received or applied for and received related temporary funding as follows for the years ended June 30, 2023 and 2022.

The Organization received HRSA Cares grants, ARPA Funding, Retention Grants and other related funding from local business and individual contributions during the year ended June 30, 2023 and 2022. The Organization's managed care organizations also assisted with either one-time lump sum or monthly payments throughout the year ended June 30, 2023 and 2022, during the pandemic and continued recovery period.

Global events in the United States and around the world, such as a pandemic or international conflicts have and could continue to cause business disruption. While such disruption is expected to be temporary, there is considerable uncertainty about the duration and extent of the economic impact such events could have on the Organization.

NOTE 12 RELATED PARTIES

The Organization receives contributions from board members, spouses of board members and former board members, all of whom are considered related parties. For the years ended June 30, 2023 and 2022, contributions received from these individuals were \$27,880 and \$41,000, respectively.

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 13 IN-KIND CONTRIBUTIONS

The Organization received contributions of nonfinancial assets for the years ending June 30:

| | <u>2023</u> | <u>2022</u> |
|--------------------------|------------------|------------------|
| Program in-kind | | |
| Program supplies | \$ 8,919 | \$ 14,732 |
| School supplies | 3,040 | 1,554 |
| Holiday supplies | 13,433 | 13,580 |
| Fundraising in-kind | | |
| Golf tournament supplies | 1,972 | 2,392 |
| Ride event supplies | 888 | 714 |
| Gala supplies | 21,407 | 17,123 |
| Donated commodities | 19,835 | 13,568 |
| | <u>\$ 69,494</u> | <u>\$ 63,663</u> |

Program in-kind contributions, received by the Organization are recorded as in-kind contribution revenue with a corresponding increase in in-kind operation expenses. Contributed items consisted of books, backpacks and other school related supplies, food, holiday gifts, and clothing to be utilized to support the needs of the children being served.

Fundraising in-kind contributions, received by the Organization are recorded as in-kind contribution revenue with a corresponding increase in in-kind development (fundraising) expenses. Contributed items consisted of auction items valued at the fair market value, paper supplies, and food and beverage supplies to be utilized during the events.

Donated commodities received by the Organization are recorded as in-kind contribution revenue with a corresponding increase in food expense. Contributed items consist of food to be utilized to support the needs of the children being served.

All nonfinancial (in-kind) contributions were valued using estimates based on prices of identical or similar products as provided by the donor. All in-kind contributions were utilized for various programs, as well as administrative and fundraising purposes as presented in the statements of functional expenses. While the Organization does not have a formal policy regarding monetization versus utilization of nonfinancial contributions, the Organization's standard practice is to utilize such contributions. There were no donor-imposed restrictions associated with contributed nonfinancial assets as of June 30, 2023 and 2022.

NOTE 14 CONTINGENT LIABILITIES

The Organization participates in several grant programs with funding from federal and state sources. These programs are subject to compliance audits by the grantors or their representatives.

NOTE 15 RETIREMENT PLANS

Tax Deferred Annuity Plan

The Organization maintains a tax deferred annuity plan under Internal Revenue Code Section 403(b), covering eligible full-time employees.

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 15 RETIREMENT PLANS (CONTINUED)

Defined Benefit Plan

The Organization has a defined benefit pension plan covering substantially all of its employees that were employed as of June 30, 2003. The benefits were based on years of service and the employee's compensation during the last year of employment. The Organization's funding policy was to contribute the minimum required deposit, as defined in Section 412 of the Internal Revenue Code, throughout the plan year which kept the Plan from developing an accumulated funding deficiency.

The Organization adopted a plan amendment which suspended all future benefit accruals in the defined benefit plan as of June 30, 2003. The Organization established a defined contribution 403(b) plan as disclosed above for employee and employer contributions to be made after June 30, 2003.

Periodic benefit cost included in the Statements of Activities include the following components for year ended June 30, 2023 and 2022:

| | <u>2023</u> | <u>2022</u> |
|---|-------------------|---------------------|
| Interest cost on the accumulated benefit obligation | \$ 306,155 | \$ 236,104 |
| Expected return on assets held in plan | (244,129) | (488,733) |
| Recognized net actuarial loss | 109,245 | 121,359 |
| | <u>\$ 171,271</u> | <u>\$ (131,270)</u> |

Other disclosure information:

| <u>Measurement date</u> | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|--------------------------------|----------------------|----------------------|
| Accumulated benefit obligation | \$ - | \$ 6,867,426 |
| Fair value of plan assets | 269,151 | 6,809,968 |
| Funded status | 269,151 | (57,459) |
| Contributions | - | 1,100,000 |
| Benefits paid | (370,665) | (345,398) |

Pension plan assets were carried at fair value based upon quoted market prices, a Level 1 fair value input. For the year ended June 30, 2023 and 2022, pension plan assets were made up of mutual funds 0% (\$0) and 98.9% (\$6,735,058) and cash/money funds 100% (\$269,151) and 1.1% (\$74,910), respectively.

Assumptions:

| | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|---|----------------------|----------------------|
| Weighted average discount rate | 4.60% | 2.75% |
| Expected long-term rate of return on assets | 3.70% | 7.00% |

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 15 RETIREMENT PLANS (CONTINUED)

Total expense for June 30, 2023 was \$20,464, comprised of \$488 for professional actuarial services and \$19,976 for Pension Benefit Guaranty Corporation (PBGC) premiums. Total expense for June 30, 2022 was \$94,300, comprised of \$1,092 for professional actuarial services and \$93,208 for Pension Benefit Guaranty Corporation (PBGC) premiums.

| | June 30, 2023 | June 30, 2022 |
|--|----------------------|----------------------|
| Increase (decrease) in pension liability | \$ (326,610) | \$ (1,546,251) |

Items not recognized as a component of net periodic pension cost:

| | June 30, 2023 | June 30, 2022 |
|-----------------------------|-----------------------|----------------------|
| Net (gain) loss | \$ (388,636) | \$ (193,622) |
| Amortization of prior gains | (109,245) | (121,359) |
| Settlement of gains | (1,495,437) | - |
| | <u>\$ (1,993,318)</u> | <u>\$ (314,981)</u> |

There are no estimated future fiscal year benefit payment as the plan has been settled effective June 30, 2023.

Investment policies and strategies

The investment policy for plans sponsored by the Organization was based on ERISA standards for prudent investing. This policy strived to maximize return while limiting risk, which is achieved through a balanced portfolio of equity and fixed income investments, as well as alternative asset classes. Within each asset class, a diversified mix of individual securities and bonds was selected. Equity allocations were targeted between 50% and 75% of the portfolio, with the remainder in fixed income investments and a small portion in alternative asset classes such as real estate. Asset manager performance was reviewed at least once every six months and benchmarked against the peer universe for the given investment style.

Determination of expected long-term rate of return on assets

The Organization has examined the historical benchmarks for returns in each asset class in its portfolio and, based on the target asset mix, has developed a weighted average expected return for the portfolio as a whole, taking into consideration forecasts of long-term expected inflation rates of 2.0% - 3.5%.

Demographic Assumptions

| | |
|------------------|---|
| Measurement Date | June 30 |
| Mortality | RP-2014 White Collar Mortality Table with MP-2021 Improvement Scale |
| Termination | None assumed |
| Disability | None assumed |

The Organization terminated and settled the plan as of June 30, 2023.

HOFFMAN HOMES, INC.
Notes to Financial Statements

NOTE 16 DERIVATIVE INSTRUMENTS

During the fiscal year ending June 30, 2012, the Organization entered into a forward start interest rate swap to hedge the interest rate risk associated with a loan in the amount of \$2,350,000 at a fixed-rate. The loan was issued during the year ending June 30, 2012. The swap was effective on March 9, 2012 and terminated on March 9, 2022.

During the fiscal year ending June 30, 2019, the Organization entered into a forward start interest rate swap to hedge the interest rate risk associated with a loan in the amount of \$2,037,635 at a fixed rate. The loan was issued during the year ending June 30, 2019. The swap was effective on October 9, 2018 and terminates on October 4, 2025.

The Organization is paying interest related to the swap agreement. The swap is issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to the fair value at the end of the year. The swap agreement had a fair value of \$40,911 and \$2,799 at June 30, 2023 and 2022, respectively. These amounts are included on the Statements of Financial Position and the change in fair value shown as an unrealized gain (loss) on the Statements of Activities, affecting the changes in net assets without donor restrictions.

During the fiscal year ending June 30, 2022, the Organization entered into a forward start interest rate swap to hedge the interest rate risk associated with a loan in the amount of \$4,100,000 at a fixed-rate. The swap is effective on March 25, 2024 and terminates on March 25, 2034.

The Organization is paying interest related to the swap agreement. The swap is issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to the fair value at the end of the year. The swap agreement had a fair value of \$180,126 and \$21,501 at June 30, 2023 and 2022. These amounts are included on the Statements of Financial Position and the change in fair value shown as an unrealized gain (loss) on the Statements of Activities, affecting the changes in net assets without donor restrictions.

The fair market value of the Organization's derivatives are calculated as of the close of business on the valuation date and has been derived from a variety of sources, including PNC's confidential, proprietary models which are based upon financial principles and assumptions PNC believes to be reasonable, and the notional value noted above and is considered a Level 2 input in accordance with ASC 820, Fair Value Measurements. Level 2 inputs are based on quoted market prices for similar assets or liabilities within active markets.

NOTE 17 SUBSEQUENT EVENTS

The Organization has evaluated events and transactions subsequent to June 30, 2023 through the date of the Independent Auditor's Report.