



AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2022

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	5
STATEMENT OF FUNCTIONAL EXPENSES	6
STATEMENT OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8



3187 RED HILL AVE. #110, COSTA MESA, CALIFORNIA 92626
TEL: 949-650-9580 | FAX 949-650-9585
www.genskemulder.com

Independent Auditors' Report

To: The Board of Directors
Purple Heart Homes, Inc.
Statesville, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Purple Heart Homes, Inc., a Not-for-Profit Organization which comprise the statement of financial position as of December 31, 2022, 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 accompanying financial statements present fairly, in all material respects, the financial position of Purple Heart Homes, Inc. as of December 31, 2022, 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. 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 Purple Heart Homes, Inc. 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 Purple Heart 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 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 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted 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 Purple Heart Homes, Inc. 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, which raise substantial doubt about Purple Heart 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.

July 19, 2023

Genske, Mulder & Co., LLP
GENSKE, MULDER & CO., LLP
Certified Public Accountants
Costa Mesa, California

PURPLE HEART HOMES, INC
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$		1,052,758
Restricted cash			530,162
Accounts receivable			
Sales taxes	\$	31,344	
Chapters		2,534	
Other		<u>358</u>	34,236
Board-designated operating reserve			37,230
Inventory			146,887
Prepaid expenses			<u>31,952</u>
Total Current Assets			1,833,225

NONCURRENT ASSETS

Real estate inventory			1,253,198
Purchase-money mortgages, net			303,542
Right of use assets - operating leases			18,758
Board-designated endowment			60,953
Property and equipment, net			<u>1,204,420</u>
Total Noncurrent Assets			<u>2,840,871</u>

TOTAL ASSETS	\$		<u><u>4,674,096</u></u>
--------------	----	--	-------------------------

The notes are an integral part of these financial statements.

PURPLE HEART HOMES, INC
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	287,988
Accrued wages and taxes		85,332
Credit cards payable		27,029
Leases payable, current		2,539
Notes payable, current		18,562
Operating lease liabilities, current		<u>4,757</u>
Total Current Liabilities		426,207

NONCURRENT LIABILITIES

Leases payable, net		2,537
Notes payable, net		341,079
Operating lease liabilities, net		<u>14,001</u>
Total Noncurrent Liabilities		<u>357,617</u>
Total Liabilities		783,824

NET ASSETS

Without donor restrictions		
Undesignated	\$	3,065,207
Board-designated endowment		60,953
Board-designated operating reserve		<u>37,230</u>
Total Without donor restrictions		<u>3,163,390</u>
With donor restrictions		<u>726,882</u>
Total Net Assets		<u>3,890,272</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>4,674,096</u></u>

The notes are an integral part of these financial statements.

PURPLE HEART HOMES, INC
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support			
Contributions	\$ 967,899	\$ 199,729	\$ 1,167,628
Grants	105,250	3,081,276	3,186,526
Contributed nonfinancial assets	1,161,685	-	1,161,685
Special events, net	<u>90,722</u>	<u>-</u>	<u>90,722</u>
Total Support	2,325,556	3,281,005	5,606,561
Revenue			
Project management fees	349,080	-	349,080
Rent	35,863	-	35,863
Investments, net of investment expenses of \$4,254	(11,060)	-	(11,060)
E-Store sales, net	491	-	491
Sale of transitional home	30,000	-	30,000
Other	<u>29,637</u>	<u>-</u>	<u>29,637</u>
Total Revenue	434,011	-	434,011
Net assets released from restrictions	<u>3,543,601</u>	<u>(3,543,601)</u>	<u>-</u>
Total Support and Revenue	6,303,168	(262,596)	6,040,572
EXPENSES			
Program services	4,424,438	-	4,424,438
Management and general	757,758	-	757,758
Fundraising	<u>1,010,590</u>	<u>-</u>	<u>1,010,590</u>
Total Expenses	<u>6,192,786</u>	<u>-</u>	<u>6,192,786</u>
OTHER INCOME (EXPENSE)			
Interest income	1,605	-	1,605
Management and general	-	-	-
Loss on sale of assets	<u>(19,508)</u>	<u>-</u>	<u>(19,508)</u>
Total Expenses	<u>(17,903)</u>	<u>-</u>	<u>(17,903)</u>
Change in Net Assets	92,479	(262,596)	(170,117)
NET ASSETS			
Beginning of year	<u>3,070,911</u>	<u>989,478</u>	<u>4,060,389</u>
End of year	<u>\$ 3,163,390</u>	<u>\$ 726,882</u>	<u>\$ 3,890,272</u>

The notes are an integral part of these financial statements.

PURPLE HEART HOMES, INC
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program Services			Supporting Services		Total Expenses
	Veterans Aging in Place	Veterans Home Ownership	Total Programs	Management and General	Fundraising	
Specific assistance	\$ 2,401,009	\$ 566,465	\$ 2,967,474	\$ 465	\$ -	\$ 2,967,939
Payroll	674,634	159,164	833,798	406,475	367,814	1,608,087
Advertising and marketing	8,694	2,051	10,745	1,904	410,335	422,984
Community outreach	176,114	41,550	217,664	2,967	14,214	234,845
Amortization	-	160,347	160,347	2,140	-	162,487
Contract services	-	10,317	10,317	14,100	92,178	116,595
Legal and professional	18,979	4,478	23,457	71,187	17,307	111,951
Office	6,471	1,527	7,998	57,925	32,106	98,029
Repairs and maintenance	43,789	10,331	54,120	33,639	3,935	91,694
Insurance	40,876	9,644	50,520	21,859	14,402	86,781
Staff development	4,369	1,301	5,670	73,575	5,423	84,668
Fundraising	-	-	-	-	54,520	54,520
Depreciation	5,972	5,972	11,944	28,110	-	40,054
Travel	11,495	2,712	14,207	8,820	16,353	39,380
Utilities	17,774	4,193	21,967	6,891	4,615	33,473
PHH chapters	19,295	-	19,295	-	602	19,897
Telecommunications	5,187	1,224	6,411	5,884	5,771	18,066
Interest	307	73	380	14,343	115	14,838
Vehicles	5,560	1,039	6,599	4,136	149	10,884
Bank charges	299	71	370	923	6,949	8,242
Licenses and fees	-	-	-	997	4,082	5,079
Taxes	829	196	1,025	1,259	1,236	3,520
E-Store cost of goods sold	73	17	90	1,837	818	2,745
Miscellaneous	-	-	-	159	250	409
Gifts	105	25	130	-	-	130
	<u>3,441,831</u>	<u>982,697</u>	<u>4,424,528</u>	<u>759,595</u>	<u>1,053,174</u>	<u>6,237,297</u>
Less expenses included with revenue on the statement of activities						
Special events - direct donor benefit	-	-	-	-	(41,766)	(41,766)
E-Store cost of goods sold	(73)	(17)	(90)	(1,837)	(818)	(2,745)
Total Expenses	<u>\$ 3,441,758</u>	<u>\$ 982,680</u>	<u>\$ 4,424,438</u>	<u>\$ 757,758</u>	<u>\$ 1,010,590</u>	<u>\$ 6,192,786</u>

The notes are an integral part of these financial statements.

PURPLE HEART HOMES, INC
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

CASH FLOW FROM OPERATING ACTIVITIES

Change in net assets	\$	(170,117)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	\$ 202,540	
Loss on sale of assets	19,508	
Investment loss, net	4,108	
Unrealized loss on investments	7,376	
Noncash contribution of inventory	(197,804)	
Noncash contribution of real estate inventory	(702,674)	
Noncash contribution of property and equipment	<u>(18,000)</u>	(684,946)
Changes in:		
Accounts receivable	(14,660)	
Inventory	535,836	
Prepays	(7,527)	
Real estate inventory	615,127	
Accounts payable	245,500	
Accrued liabilities	30,132	
Credit cards payable	<u>7,352</u>	<u>1,411,760</u>
Net cash provided by operating activities		556,697

CASH FLOW FROM INVESTING ACTIVITIES

Purchase of property and equipment	(160,207)	
Issuance of purchase-money mortgages	(87,500)	
Proceeds from sale of investments	10,000	
Purchase of investments	<u>(37,226)</u>	
Net cash used by investing activities		(274,933)

CASH FLOW FROM FINANCING ACTIVITIES

Payments on leases	3,148	
Payments on notes payable	<u>(24,300)</u>	
Net cash used by financing activities		<u>(21,152)</u>

Net change in cash, cash equivalents and restricted cash		260,612
--	--	---------

CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Beginning of year		<u>1,322,308</u>
End of year		<u><u>\$ 1,582,920</u></u>

The notes are an integral part of these financial statements.

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Purple Heart Homes, Inc. (the Organization, PHH, we, us, our) is a not-for-profit corporation organized under the laws of the State of North Carolina in 2008. The Organization's purpose is to provide personalized housing solutions for service-connected disabled Veterans and their families that are substantial in function, design, and quality.

PHH focuses our services on Veterans, providing home repair, renovation, housing assistance and employment assistance. PHH takes a personal approach with every Veteran. Each project is catered to the individual's need to provide the most impactful outcome for the Veteran being served. PHH is a nonprofit corporation, and all contributions are tax deductible under Section 501(c)(3) of the Internal Revenue Code.

PHH provides the following programs:

VAIP-Veterans Aging in Place

For service-connected disabled Veterans who currently own a home that no longer meets their physical needs, Purple Heart Homes partners with local volunteers in the community with the intent of restoring dignity and quality of life by creating a safe, barrier-free living environment. Renovations are provided at no cost to the Veteran.

Chapters (VAIP)

PHH shifted away from a stand-alone EIN model and absorbed these Chapters into PHH HQ. We will still have a similar Chapter footprint as years past, and we will continue to create new chapters in target cities in the United States. The Chapters will have the back-office support of PHH HQ moving forward.

VHOP-Veterans Home Opportunity Program

For Veterans who are prepared to accept the responsibility of homeownership, the program provides PHH Veterans with newly renovated and/or modified homes that have been donated from various sources specifically for the VHOP. Qualified Veterans will have the opportunity to obtain a mortgage and own one of these homes at no more than 50% of the final appraised value of the home.

Veteran Tiny Homes (VHOP)

Veteran Tiny Homes will address Veteran housing insecurity and even homelessness. Purple Heart Homes is exploring other options to not only use these tiny homes to provide housing solutions to service-connected disabled and aging Veterans, but also to coordinated with state Continuum of Care to address the greater homelessness issue. We are exploring commercial sales options through a manufacturing partnership. This will be another organizational sustainability measure from which a revenue stream will be generated for Purple Heart Homes.

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Rental Program (VHOP)

Purple Heart Homes developed a rental program for those Veterans who might be in a transitional phase in life or coming out of a congregate living environment and are not quite ready for homeownership but are ready for independent living. The rental program will also provide a revenue stream to PHH that will allow this program to be self-sustaining and allow PHH to serve more Veterans.

The goal of these programs is to help reintegrate the service-connected disabled veteran into the community in which they live and to proudly acknowledge the sacrifice they have made on their country's behalf. Whether it is adapting a veteran's existing home, building a home from the ground up, or adapting and modifying a foreclosed home, the Organization is committed to guiding the veteran through the entire process.

The Organization has chapter affiliates in North Carolina and other states across the country.

PHH is supported primarily through general financial contributions and grants and contributed nonfinancial assets.

Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

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

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of PHH. These net assets may be used at the discretion of PHH's management and the Board of Directors. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and a board-designated endowment.

Net Assets with Donor Restrictions – Net assets are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of PHH or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service.

Fair Value Hierarchy

PHH reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

- Level 1. Quoted prices for identical assets or liabilities in active markets to which PHH has access at the measurement date.
- Level 2. Inputs other than quoted prices included in level 1 are observable for the asset or liability, either directly or indirectly.
- Level 3. Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value if observable inputs are not available.

We use net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain private equity funds, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include checking accounts, savings accounts, money market accounts, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents are accounted for at cost, which approximates fair market value. Cash and highly liquid financial instruments restricted to projects, to endowments that are perpetual in nature, or to other long-term purposes are excluded from this definition.

Certain donor contributions require PHH maintain separate cash balances for specific purposes. These cash amounts are reported as restricted in the statement of financial position.

Accounts Receivable

Receivables from contracts with customers are reported as accounts receivable, net in the accompanying statements of financial position. Contract liabilities, if any, are reported as deferred revenue in the accompanying statements of financial position.

Investments

Investments in marketable securities are readily determinable fair values and all investments in debt securities are valued at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets. Investment income and gains are reported as increases in net assets without donor restrictions in the reporting period in which the income and gains are recognized.

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists of material for home construction and improvements. Inventory is valued at the lower of cost (first in, first out method) or net realizable value.

Real Estate Inventory

Real estate inventory consists of donated homes, plus accumulated costs of improvements. Donated homes are initially recorded at fair value as of the date of donation. Accumulated costs of improvements are carried at cost. Real estate inventory is relieved when the home is provided to a Veteran through one of the programs.

Purchase-Money Mortgages and Credit Policies

At the beginning of 2022, the Company adopted FASB ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Company adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the Company's financial statements but did change how the allowance for credit losses is determined.

Homes are available to service-connected disabled veterans at no less than fifty percent and up to sixty-five percent of the estimated value of the property. The Organization obtains a purchase-money mortgage for the difference between the contract sales price and the amount that the purchaser is required to pay for the home. The mortgage expires over a five-year period at no cost to the purchaser. Service-connected disabled veterans that demonstrate major improvement in credit repair and complete all required programs within five years can have the mortgage forgiven ratably over the five-year period. The purchase-money mortgages are amortized over the five-year period.

Leases

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Lease assets and related liabilities are recognized at lease commencement based on the present value of lease payments over the lease term for leases with a term greater than 12 months. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain the Organization will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

PHH adopted FASB Topic 842, *Leases*, using the modified retrospective approach effective January 1, 2022. PHH elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to carry forward the historical lease classification. As a result of adopting the new standard, PHH recorded additional lease assets and lease liabilities of approximately \$23,000, which resulted in no impact on beginning net assets. Adoption of the new standard did not materially impact the Organization's change in net assets and had no impact on cash flows.

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PHH has elected to use a risk-free rate (Treasury constant maturity nominal yield) for all leases in which an implicit rate is not determinable.

Property and Equipment

PHH records property and equipment additions over \$2,500 at cost, or if donated, at fair value on the date of donation. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 30 years, or in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term.

When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed in the current period in the statement of functional expenses. We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset.

Revenue Recognition

Contributions and grants – PHH recognizes contributions as revenue in the period received. Contributions received are recorded as support without restriction or support with restriction depending on the existence and nature of any donor restrictions, if any. Support that is restricted by the donor is reported as an increase in net assets with restriction, as applicable. Within net assets with restriction, amounts are reclassified to net assets without restriction when restrictions expire. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

Special events – PHH records special events revenue net of the fair value of direct benefit to donors.

Project management fees – PHH generates revenue from managing construction projects. Fee revenue is recognized as earned.

Rent – PHH rents space to qualified Veterans under the VHOP rental program. Rent revenue is recognized as earned.

E-Store – PHH operated an online store that sold branded products. Revenue from the store is recognized as earned and reported net of cost of goods sold in the statement of activities. During 2022, PHH ceased store operations.

Sale of transitional homes – Homes provided to veterans are intended to be held for a period of not less than five years. PHH recognizes revenue on homes sold within the five-year period.

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed nonfinancial assets – Contributed nonfinancial assets are recorded at estimated fair value at the date of donation. GAAP requires recognition of professional services received if those services (a) create or enhance long-lived assets or (b) require specialized skills, which are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. The value of contributed time (unpaid volunteers) is not reflected in these statements since it is not susceptible to objective measurement of valuation.

Functional Allocation of Expenses

The costs of providing the programs and other activities have been summarized on a functional basis in these financial statements. All direct expenses have been allocated to the programs, management and general, and fundraising throughout the year as incurred. In addition, various indirect expenses such as depreciation and amortization as well as payroll and utility costs have been allocated to these areas based on employee time and effort or space occupied.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses. Actual results could differ from those estimates.

Income Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization reported no unrelated business income for the year ended December 31, 2022. Management represents that there is no uncertain tax position or other provision for income taxes that should be recognized in these financial statements. In addition, the Organization qualifies to receive deductible charitable contributions pursuant to Section 170(b)(1)(A)(vi).

The Organization files IRS Form 990, Return of Organization Exempt from Income Tax, annually with the Federal Government. The Organization has complied with all North Carolina filing requirements. Generally, returns remain open for examination by taxing authorities for three years after they have been filed. The Organization believes that it has appropriate support for income tax positions taken; however, returns for the years ended December 31, 2019, through 2022 remain open for examination.

Pending Accounting Guidance

In June 2016, FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326). ASU 326 is applicable to all financial instruments that are not accounted for at fair value through net income, thereby bringing consistency in accounting treatment across different types of financial instruments and requiring consideration of a broader range of variables when forming loss estimates. Although this change affects any entity holding financial instruments, the financial services industry by its nature bears the most exposure.

This standard is effective for fiscal years beginning after December 15, 2022, with early application permitted. This ASC requires non-profits to adopt the new current expected credit losses (CECL)

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

methodology for estimating allowances for credit losses. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations and cash flows.

NOTE 2: AVAILABILITY AND LIQUIDITY

The Organization’s goal is to maintain financial assets sufficient to satisfy operating expenses over a period of time. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts. The Organization has a revolving line of credit available to meet its short-term cash flow needs.

Financial assets available to meet general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, are as follows:

Financial assets at December 31, 2022	
Cash and cash equivalents	\$ 1,052,758
Receivables	<u>34,236</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,086,994</u>

NOTE 3: CASH, CASH EQUIVALENTS AND RESTRICTED CASH

We manage deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts.

Cash, cash equivalents and restricted cash are reported in the statement of financial position as follows:

Per statement of financial position	
Cash and cash equivalents	\$ 1,052,758
Restricted cash	<u>530,162</u>
Per statement of cash flows	<u>\$ 1,582,920</u>

NOTE 4: SALES TAX RECEIVABLE

The State of North Carolina imposes a sales tax of 4.75% plus applicable county sales tax ranging from 0% to 2.75% on all the Organization’s purchases. The Organization pays the sales tax to vendors and suppliers, then requests reimbursement for the entire amount from the State. The Organization’s accounting policy is to exclude the tax paid and requested from the State from revenues and sales tax expenses.

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5: INVESTMENTS AT FAIR VALUE

The following table presents investments measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient, at December 31, 2022:

	Level 1	Level 2	Level 3	Other
Global equity mutual funds (operating reserve)	\$ 37,230	\$ -	\$ -	\$ -
Pooled investment account (endowment)	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,953</u>
	<u>\$ 37,230</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,953</u>

The pooled investment account is invested in the Foundation for the Carolinas, a community foundation. Underlying assets are not separable or individually allocable to PHH. Changes in the pooled investment account are as follows for the year ended December 31, 2022:

Beginning balance	\$ 72,519
Investment expenses	(526)
Unrealized loss	<u>(11,040)</u>
Ending balance	<u>\$ 60,953</u>

NOTE 6: REAL ESTATE INVENTORY

Real estate inventory consists of homes donated to and used by PHH programs. Donations, improvements and other adjustments, and releases for the year ended December 31, 2022, are as follows:

Beginning real estate inventory	\$ 1,185,159
Donated homes	702,674
Improvements and other adjustments	83,020
Casualty losses	(90,165)
Used in programs	<u>(627,490)</u>
Ending real estate inventory	<u>\$ 1,253,198</u>

Sales activity for the year ended December 31, 2022, are as follows:

Sale proceeds	\$ 764,000
Cost of homes and improvements	(627,490)
Closing and other costs of sales	(65,853)
Casualty losses	<u>(90,165)</u>
Ending balance	<u>\$ (19,508)</u>

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 6: REAL ESTATE INVENTORY (Continued)

PHH acquired a purchase-money mortgage for \$87,500 in connection with the sale of one of the homes.

NOTE 7: PURCHASE-MONEY MORTGAGES

Purchase-money mortgages are as follows as of and for the year ended December 31, 2022:

	<u>Mortgages</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Beginning balance	\$ 786,900	\$ (410,512)	\$ 376,388
New mortgages/current amortization	87,500	(160,347)	(72,847)
Mortgages forgiven	<u>(189,400)</u>	<u>189,400</u>	<u>-</u>
	<u>\$ 685,000</u>	<u>\$ (381,459)</u>	<u>\$ 303,541</u>

NOTE 8: LEASES

PHH leases equipment under operating and finance leases with terms generally ranging from three to five years. The finance leases offer purchase options which the Organization expects to exercise.

The following is a summary of the line items in the statement of financial position which include amounts for operating and finance leases as of December 31, 2022:

	<u>Operating Leases</u>	<u>Finance Leases</u>
Equipment	\$ -	\$ 13,209
Accumulated depreciation	-	(4,073)
Operating lease right-of-use assets	<u>18,758</u>	<u>-</u>
Total lease assets	<u>\$ 18,758</u>	<u>\$ 9,136</u>
Leases payable, current	\$ -	\$ 2,539
Leases payable, net	-	2,537
Operating lease liabilities, current	4,757	-
Operating lease liabilities, net	<u>14,001</u>	<u>-</u>
Total lease liabilities	<u>\$ 18,758</u>	<u>\$ 5,076</u>

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 8: LEASES (Continued)

Maturities of lease liabilities are as follows for the years ending December 31:

	Operating <u>Leases</u>	Finance <u>Leases</u>
2023	\$ 5,352	\$ 2,592
2024	5,352	2,592
2025	5,352	216
2026	<u>4,014</u>	<u>-</u>
Total lease payments	20,070	5,400
Less amount representing interest	(1,312)	(324)
Present value of lease liabilities	<u>\$ 18,758</u>	<u>\$ 5,076</u>

The following summarizes the weighted-average remaining lease terms and discount rates as of December 31, 2022:

	Operating <u>Leases</u>	Finance <u>Leases</u>
Weighted-average remaining lease term	3.75 years	2.08 years
Weighted-average discount rate	29.30%	5.95%

The following is a summary of the line items in the statement of activities that include amounts for leases for the year ended December 31, 2022:

	Operating <u>Leases</u>	Finance <u>Leases</u>
Rent expense included in office expenses	\$ 5,853	\$ -
Amortization included in amortization expense	-	2,043
Interest expense	<u>-</u>	<u>549</u>
Total lease cost	<u>\$ 5,853</u>	<u>\$ 2,592</u>

The following summarizes cash flow information related to leases for the year ended December 31, 2022:

	Operating <u>Leases</u>	Finance <u>Leases</u>
Cash payments included in operating cash flows	\$ 5,853	\$ 549
Cash payments included in financing cash flows	\$ -	\$ 2,043

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 9: PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2022:

Buildings and improvements	\$ 925,072
Equipment	144,154
Vehicles	<u>140,900</u>
	1,210,126
Less accumulated depreciation	<u>(227,206)</u>
	982,920
Land	<u>221,500</u>
	<u><u>\$ 1,204,420</u></u>

NOTE 10: NOTES PAYABLE

Notes payable were as follows at December 31, 2022:

Wells Fargo Bank, payable in monthly installments of \$2,307, including interest at 3.60% per annum. The note matures June 2025, at which time any unpaid balance is due. The note is secured by real estate.	\$ 357,817
Ally Bank, payable in monthly installments of \$313, including interest at 5.54% per annum. The note matures October 2024 and is secured by a vehicle.	<u>6,535</u>
	364,352
Less unamortized loan issuance costs	<u>(4,711)</u>
	359,641
Less current portion	<u>18,562</u>
	<u><u>\$ 341,079</u></u>

Future repayments are as follows for the years ending December 31:

2023	\$ 18,562
2024	18,863
2025	<u>327,107</u>
	<u><u>\$ 364,352</u></u>

NOTE 11: ENDOWMENT FUND

Our Board of Directors has interpreted the North Carolina's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 11: ENDOWMENT FUND (Continued)

donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts or, if the fair value election has been made, including promises to give at fair value donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

We consider 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 organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

We have adopted investment policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, The target minimum rate of return is the Consumer Price Index plus 5 percent on an annual basis. Actual returns in any given year may vary from this amount.

As of December 31, 2022, the endowment consists of net assets without donor restrictions, designated by the Board for use in the Scholarship program. The program provides one \$2,500 award per year to a child or grandchild of a disabled veteran, to be used towards student housing expense.

Changes in the endowment fund are as follows for the year ended December 31, 2022:

Beginning of year	\$ 72,519
Investment return, net	<u>(11,566)</u>
	<u>\$ 60,953</u>

PURPLE HEART HOMES, INC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 12: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are as follows as of December 31, 2022:

Home improvements	\$ 427,644
Tiny Homes Project	134,416
Capacity building	84,767
Donated homes improvements	80,000
Scholarships	<u>55</u>
	<u>\$ 726,882</u>

NOTE 13: CONTRIBUTED NONFINANCIAL ASSETS

Purple Heart Homes received the following contributed nonfinancial assets in 2022:

Homes	\$ 702,674
Building materials and supplies	197,804
Discounts and credits	149,436
Contract labor	79,996
Vehicle	18,000
Professional services	12,275
Miscellaneous	<u>1,500</u>
	<u>\$ 1,165,685</u>

NOTE 14: RELATED PARTIES

The Organization received contributions from two major donors who each have an employee on the Board of Directors of the Organization. The Organization received \$2,355,000 from those donors during 2022.

NOTE 15: SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 19, 2023, the date these financial statements were available to be issued.