Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Financial Report
June 30, 2023

Contents

Independent Auditor's Report

Board of Directors
Melwood Horticultural Training Center, Inc.

Opinion
We have audited the consolidated financial statements of Melwood Horticultural Training Center, Inc. and Affiliates (the Center), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Center as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 the Center's ability to continue as a going concern within one year after the date that the financial statements are issued or 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 the Center's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center'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.

RSM US LLP

Gaithersburg, Maryland
November 20, 2023

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Balance Sheets
June 30, 2023 and 2022
(In Thousands)

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	$ 12,116	$ 13,949
Receivables, net	26,064	23,707
Inventory	193	131
Prepaid expenses	690	546
Total current assets	39,063	38,333
Property and equipment, net	19,158	19,632
Right-of-use asset	75	-
Investments	13,380	12,522
Other assets	1,128	508
	$ 72,804	$ 70,995
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 8,000	$ 9,824
Accrued payroll and withheld taxes	6,181	5,742
Notes payable, current portion	330	555
Lease liability	76	-
Deferred revenue	48	3,398
Total current liabilities	14,635	19,519
Notes payable, net of current portion	41	417
Equity method investment	247	-
Other liabilities	55	156
Total liabilities	14,978	20,092
Contingencies (Note 11)		
Net assets:		
Without donor restrictions:		
Undesignated	44,446	38,381
Board designated	12,102	11,268
	56,548	49,649
With donor restrictions	1,278	1,254
	57,826	50,903
	$ 72,804	$ 70,995

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statements of Activities
Years Ended June 30, 2023 and 2022
(In Thousands)

	2023			2022		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Public support:						
Monetary contributions	**$ 637**	**$ -**	**$ 637**	$ 381	$ -	$ 381
Nonfinancial contributions	**2,800**	**-**	**2,800**	2,964	-	2,964
Government and private grants	**1,581**	**-**	**1,581**	1,172	-	1,172
Contract revenue	**99,805**	**-**	**99,805**	97,533	-	97,533
Service fees	**12,374**	**-**	**12,374**	8,091	-	8,091
Other	**183**	**-**	**183**	121	-	121
Net assets released from restrictions	**62**	**(62)**	**-**	75	(75)	-
	117,442	**(62)**	**117,380**	110,337	(75)	110,262
Investment income (loss), net	**772**	**86**	**858**	(1,338)	(159)	(1,497)
Total support and revenue	**118,214**	**24**	**118,238**	108,999	(234)	108,765
Expenses:						
Program expenses:						
Employment services	**79,645**	**-**	**79,645**	78,393	-	78,393
Community services	**11,806**	**-**	**11,806**	11,786	-	11,786
Therapeutic services	**1,890**	**-**	**1,890**	1,502	-	1,502
Veterans services	**-**	**-**	**-**	79	-	79
Total program expenses	**93,341**	**-**	**93,341**	91,760	-	91,760
Supporting services:						
Management and general	**15,266**	**-**	**15,266**	14,097	-	14,097
Fundraising	**2,309**	**-**	**2,309**	1,465	-	1,465
Total supporting services	**17,575**	**-**	**17,575**	15,562	-	15,562
Total expenses	**110,916**	**-**	**110,916**	107,322	-	107,322
Change in net assets before other income	**7,298**	**24**	**7,322**	1,677	(234)	1,443
Other losses (income):						
Loss from equity method investment	**(247)**	**-**	**(247)**	-	-	-
(Loss) gain on asset disposition	**(152)**	**-**	**(152)**	1,523	-	1,523
Total other losses (income)	**(399)**	**-**	**(399)**	1,523	-	1,523
Change in net assets	**6,899**	**24**	**6,923**	3,200	(234)	2,966
Net assets:						
Beginning	**49,649**	**1,254**	**50,903**	46,449	1,488	47,937
Ending	**$ 56,548**	**$ 1,278**	**$ 57,826**	$ 49,649	$ 1,254	$ 50,903

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2023
(In Thousands)

	Program Expenses				Supporting Services			
	Employment Services	Community Services	Therapeutic Services	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	Total
Wages and salaries	$ 40,553	$ 8,049	$ 698	$ 49,300	$ 5,557	$ 818	$ 6,375	$ 55,675
Employee benefits	11,034	2,101	187	13,322	2,794	246	3,040	16,362
Total salaries and related expenses	51,587	10,150	885	62,622	8,351	1,064	9,415	72,037
Professional and consulting fees	2,276	315	272	2,863	1,785	170	1,955	4,818
Supplies and materials	3,971	95	234	4,300	266	29	295	4,595
Buildings and occupancy	498	142	205	845	1,475	30	1,505	2,350
Equipment, maintenance and rental	1,445	361	46	1,852	2,436	23	2,459	4,311
Support and contract services	18,950	203	6	19,159	265	894	1,159	20,318
Travel and entertainment	119	202	83	404	179	42	221	625
Miscellaneous expenses	88	75	1	164	(218)	46	(172)	(8)
Interest expense and bank fees	-	-	-	-	87	2	89	89
Depreciation expense	711	263	158	1,132	640	9	649	1,781
Total expenses	$ 79,645	$ 11,806	$ 1,890	$ 93,341	$ 15,266	$ 2,309	$ 17,575	$ 110,916

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022
(In Thousands)

	Program Expenses					Supporting Services			
	Employment Services	Community Services	Therapeutic Services	Veterans Services	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	Total
Wages and salaries	$ 39,283	$ 7,706	$ 527	$ 23	$ 47,539	$ 4,648	$ 719	$ 5,367	$ 52,906
Employee benefits	11,507	2,238	154	8	13,907	1,435	213	1,648	15,555
Total salaries and related expenses	50,790	9,944	681	31	61,446	6,083	932	7,015	68,461
Professional and consulting fees	1,912	679	250	-	2,841	2,211	127	2,338	5,179
Supplies and materials	3,423	138	143	2	3,706	186	10	196	3,902
Buildings and occupancy	423	159	228	25	835	1,599	29	1,628	2,463
Equipment, maintenance and rental	732	309	39	4	1,084	2,485	7	2,492	3,576
Support and contract services	20,292	132	3	-	20,427	399	288	687	21,114
Travel and entertainment	69	161	15	-	245	95	30	125	370
Miscellaneous expenses	43	20	(4)	(1)	58	103	33	136	194
Interest expense and bank fees	3	-	-	-	3	139	1	140	143
Depreciation expense	706	244	147	18	1,115	797	8	805	1,920
Total expenses	$ 78,393	$ 11,786	$ 1,502	$ 79	$ 91,760	$ 14,097	$ 1,465	$ 15,562	$ 107,322

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022
(In Thousands)

	2023	2022
Cash flows from operating activities:		
Change in net assets	**$ 6,923**	$ 2,966
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**1,781**	1,920
Amortization of right-of-use asset	**149**	-
Change in allowance for doubtful accounts	**128**	-
Unrealized and realized (gain) loss on investment, net	**(662)**	1,744
Loss from equity method investment	**247**	-
Loss (gain) on disposition of property and equipment	**152**	(1,523)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(2,485)**	(5,899)
Inventory	**(62)**	23
Prepaid expenses	**(144)**	(237)
Other assets	**(620)**	155
Increase (decrease) in:		
Accounts payable and accrued expenses	**(1,824)**	890
Accrued payroll and withheld taxes	**439**	415
Deferred revenue	**(3,350)**	896
Lease liabilities	**(148)**	-
Other liabilities	**(101)**	(135)
Net cash provided by operating activities	**423**	1,215
Cash flows from investing activities:		
Purchase of property and equipment	**(1,459)**	(989)
Proceeds from sale of property and equipment	**-**	1,826
Purchase of investments	**(7,589)**	(3,364)
Proceeds from sale of investments	**7,393**	3,117
Net cash (used in) provided by investing activities	**(1,655)**	590
Cash flows from financing activities:		
Principal payments on notes payable	**(601)**	(685)
Net cash used in financing activities	**(601)**	(685)
Net (decrease) increase in cash and cash equivalents	**(1,833)**	1,120
Cash and cash equivalents:		
Beginning	**13,949**	12,829
Ending	**$ 12,116**	$ 13,949
Supplemental disclosure of cash flow information:		
Interest paid	**$ 80**	$ 83

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Melwood Horticultural Training Center, Inc. and Affiliates (the Center) is comprised of three entities: Melwood Horticultural Training Center, Inc. (MHTC), Melwood Veterans Services, LLC (MVS) and Melwood Community Development Corporation (MCDC).

MHTC, a Maryland corporation, supports and empowers people with disabilities throughout the local Washington, D.C. national capital area, creating opportunities for their personal success. Programs include vocational training, employment, community living, leisure, travel and recreational services. MHTC serves over 2,100 people annually, is fully licensed by the Developmental Disabilities Administration of the state of Maryland and is accredited by the Commission on Accreditation of Rehabilitation Facilities (CARF) and the American Camp Association (ACA). MHTC's programs are recognized locally, nationally and internationally.

Employment is provided through service contracts with major federal government agencies, with state, county, local governments and commercial firms. Financial stability is enhanced through fundraising initiatives that include a vehicle donation program. Support services are furnished in homes owned or leased by MHTC with staff provided to meet the needs of the residents. A unique recreation and travel program provides leisure opportunities either on-site at an MHTC-owned camping facility or through planned vacation trips.

MHTC established MVS, a Maryland limited liability Center, on May 5, 2016, for the purpose of assisting veterans with employment, career development, community reintegration and identifying additional resources and support services they need to thrive both in their professional and personal lives. Some of MVS's programming provides veterans suffering from physical and emotional trauma with strategies and techniques to approach life with renewed purpose and positivity. MHTC is the single member of MVS. As of June 30, 2023, all initiatives within MVS have been discontinued.

MHTC established MCDC, a Maryland tax-exempt non-stock corporation, on April 27, 2023, for the purpose of supporting the encouragement, stimulation, improvement and promotion of economic and community development in the greater Washington, D.C. area. As of June 30, 2023, MCDC has no activity.

A summary of the Center's significant accounting policies is as follows:

Principles of consolidation: The consolidated financial statements include the accounts of MHTC and MVS. All significant interCenter accounts and transactions have been eliminated in consolidation.

Basis of presentation: The consolidated financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under this ASC, the Center is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Reclassifications: Certain accounts relating to prior year have been reclassified to conform to the current year presentation with no effect on the previously reported change in net assets.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, the Center considers all highly liquid investments available for current use with an initial maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents held in the investment portfolio are excluded from cash and cash equivalents in reporting cash flows.

(In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Financial risk: The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center believes it is not exposed to any significant financial risk on cash.

The Center invests in a professionally managed portfolio that consists of various securities. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Receivables: Receivables primarily consist of amounts due on business contracts from the federal government and are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Contract balances: The Center presents deferred revenue as a separate component of its consolidated balance sheets. These balances represent timing differences between when amounts are billed or billable and when revenue has been recognized or has occurred as of period end. Contract liabilities are recorded when amounts are billed under a contract before the Center satisfies its performance obligations to a customer. Contract assets are included in receivables and consist of services performed prior to billing the federal government. Billings usually occur in the month after the services are performed or in accordance with specific contractual provisions. Contract balance as of June 30, 2023, June 30, 2022 and July 1, 2021, are as follows:

	2023	2022	2021
Billed accounts receivable	$ 25,256	$ 23,908	$ 18,009
Contract assets	1,137	-	-
	26,393	23,908	18,009
Less allowance for doubtful accounts	(329)	(201)	(201)
	$ 26,064	$ 23,707	$ 17,808
Contract liabilities	$ 48	$ 3,398	$ 2,502

Inventory: Inventory consists primarily of donated vehicles held for sale. Donated vehicles are initially stated at an estimated fair value at the date of receipt, which becomes the cost basis. Ending inventory is stated at the lower of cost or net realizable value.

Property and equipment: Property and equipment are carried at cost, less accumulated depreciation. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations for the period. The cost of maintenance and repairs is charged to operations as incurred, and significant renewals and betterments are capitalized. MHTC capitalizes all asset purchases in excess of $1.5.

Depreciation of furniture, equipment, buildings and building improvements is provided on a straight-line basis over their estimated useful lives.

(In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Donated property and equipment are recorded at their fair value at the date of receipt. The Center releases restrictions for contributions restricted to property and equipment as the property and equipment is placed into service. In the absence of donor-imposed restrictions on the use of the assets, gifts of long-lived assets are reported as unrestricted support.

Valuation of long-lived assets: The Center reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reflected at fair value. To adjust the carrying values of these securities, the change in fair value is recorded as a component of investment (loss) income, net in the consolidated statements of activities.

Investments in joint ventures: The Center holds a 75% investment in a joint venture, Melwood & Eggleston Enterprises, LLC. The Center accounts for its investment using the equity method of accounting due to substantive participating rights held by the limited partner. The Center's pro rata share of the net income of the affiliates is reflected in the consolidated statement of activities as net loss from equity method investments. Condensed financial information as of and for the year ended June 30, 2023, is shown below:

Total assets	$ 68,130
Total liabilities	$ 396,985
Total revenues	$ 1,446,794
Total expenses	$ 1,775,649

Revenue: The Center recognizes revenue on exchange transactions under Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers, (Topic 606)*. The Center recognizes revenue using Topic 606's five-step process that includes: (1) identify the contact with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations, and (5) recognize revenue when (or as) each performance obligation is satisfied.

The Center provides janitorial, maintenance and professional training services to customers located in the Washington, D.C. metro area. The Center enters into agreements with customers that create enforceable rights and obligations, and for which it is probable that the Center will collect the consideration to which it will be entitled as services transfer to the customer. It is customary practice for the Center to have written agreements with its customers.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The contracts typically contain billing terms that provide for invoicing once a month and payment on a net 30-day basis. The Center does not assess whether a contract contains a significant financing component if the Center expects, at contract inception, that the period between payment by the customer and the transfer of promised services to the customer will be less than one year. The Center provides services to government entities and a continuation of such contract beyond the specified date is contingent upon the availability of appropriated funds.

The Center generally recognizes revenue over the performance period as a customer receives the benefits of its service. In most cases, the Center views its performance obligations as promises to transfer a series of distinct services to its customer that are substantially the same and which have the same pattern of service.

The Center recognizes revenue as invoiced under the practical expedient. For services delivered under fixed price model, revenue is recognized based upon an appropriate output measure that may be time elapsed or another measure within the contract. The Center allocates variable fees from time and material type contracts to the distinct periods of service to which they relate. The Center measures its progress to complete based upon the hours incurred or tasks performed during the period times contractually agreed upon billing rates plus any materials delivered or consumed in the project.

The timing of revenue recognition may not align with the right to invoice the customer. The Organization records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. If revenue has not yet been recognized, a contract liability also is recorded. If revenue is recognized in advance of the right to invoice, a contract asset is recorded.

Support and revenue—contributions: Unconditional contributions received are recorded as without donor restrictions, or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Conditional contributions are not recorded until the conditions have been met. A conditional contribution is a contribution that contains both a barrier (performance obligations and/or elements of control) and a right of return/refund.

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Unconditional promises to give, including grants, are recognized as revenue or gains in the period received and as assets, decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give, including grants, are recognized when the conditions on which they depend are substantially met.

Nonfinancial contributions: Donated items consist of vehicles from private donors. No vehicles received during the period were restricted for use. It is the Center's policy to sell all donated vehicles immediately upon receipt at auction or for salvage and are recognized at the auction sale price, which approximates fair value. Funds received from the sale of vehicles are used by the Center in various ongoing programs.

Advertising: Advertising costs are expensed as incurred. For the years ended June 30, 2023 and 2022, the Center incurred advertising costs of $1,173 and $1,462, respectively.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income taxes: MHTC, MVS and MCDC are generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, they qualify for charitable contribution deductions and have been classified as organizations that are not private foundations.

Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. MHTC, MVS and MCDC did not have any material net unrelated business income for the years ended June 30, 2023 and 2022.

Functional allocation of expenses: The costs of providing various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain supporting overhead and facility costs have been allocated among the programs and supporting services benefited.

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

Subsequent events: The Center has evaluated subsequent events through November 20, 2023, the date on which the consolidated financial statements were available to be issued.

Recent accounting pronouncement adopted: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842*), to increase transparency and comparability among organizations related to their leasing arrangements. This comprehensive new standard amends and supersedes existing lease accounting guidance and is intended to increase transparency and comparability among organizations by recognizing right-of-use (ROU) lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. The Center adopted the new lease standard on June 30, 2022, using the optional-transition method to the modified-retrospective approach. Under this transition provision, results for reporting periods beginning on June 30, 2022, are presented under Topic 842, while prior-period amounts continue to be reported and disclosed in accordance with the Center's historical accounting treatment under ASC Topic 840, Leases.

To reduce the burden of adoption and ongoing compliance with Topic 842, a number of practical expedients and policy elections are available under the new guidance. The Center elected the package of practical expedients permitted under the transition guidance, which among other things, did not require reassessment of whether contracts entered into prior to adoption are or contain leases, and allowed carryforward of the historical lease classification for existing leases. The Center has not elected to adopt the hindsight practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term at adoption on June 30, 2022.

The Center made an accounting policy election under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, the Center recognizes ROU assets and lease liabilities based on the present value of lease payments over the lease term at the commencement date of the lease (or June 30, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index). Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Center's leases may include a nonlease component representing additional services transferred to the Center, such as common area maintenance for real estate. The Center made an accounting policy election to account for each separate lease component and the nonlease components associated with that lease component as a single lease component. Nonlease components that are variable in nature are recorded in variable lease expense in the period incurred.

A lessee that is not a public business entity is permitted to use a risk-free discount rate for its leases, determined using a period comparable with that of the lease term, as an accounting policy election for all leases. In order to ease the accounting burden of determining incremental borrowing rates under ASC 842, the Center has made this accounting policy election for all leases. The risk-free discount rates were obtained using U.S. Treasury securities as posted on the Federal Reserve website. The Center uses the implicit rate when readily determinable.

Adoption of Topic 842 resulted in the recording of a ROU asset and lease liability related to the Center's operating lease of $224, respectively, on June 30, 2022. The adoption of the new lease standard did not materially impact the Center's net loss or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Recent accounting pronouncements (not adopted): In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for private companies for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Center is currently evaluating the expected impact of the adoption of this standard on its consolidated financial statements and related disclosures.

(In Thousands)

Note 2. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2023, and depreciation expense for the year ended June 30, 2023, are as follows:

Asset Category	Estimated Useful Lives (Years)	Cost	Accumulated Depreciation	Net Book Value	Depreciation
Buildings and improvements	6-40	$ 25,177	$ 14,613	$ 10,564	$ 679
Transportation equipment	3-7	7,200	6,719	481	550
Training equipment and furnishings	3-10	5,107	3,987	1,120	394
Office equipment	3-7	2,141	1,349	792	158
Land	–	5,757	-	5,757	-
Work in progress—construction	–	444	-	444	-
Residential equipment	3-10	6	6	-	-
		$ 45,832	$ 26,674	$ 19,158	$ 1,781

Property and equipment and accumulated depreciation at June 30, 2022, and depreciation expense for the year ended June 30, 2022, are as follows:

Asset Category	Estimated Useful Lives (Years)	Cost	Accumulated Depreciation	Net Book Value	Depreciation
Buildings and improvements	6-40	$ 24,779	$ 14,078	$ 10,701	$ 823
Transportation equipment	3-7	8,645	7,789	856	545
Training equipment and furnishings	3-10	6,643	5,394	1,249	441
Office equipment	3-7	6,143	5,260	883	111
Land	–	5,757	-	5,757	-
Work in progress—construction	–	186	-	186	-
Residential equipment	3-10	11	11	-	-
		$ 52,164	$ 32,532	$ 19,632	$ 1,920

Note 3. Investments

Investments at June 30, 2023 and 2022, consist of the following:

	2023	2022
Equity securities, including exchange traded funds and mutual funds	$ 7,967	$ 7,234
Fixed income securities and mutual funds	4,028	4,576
Cash and cash equivalents	1,385	712
	$ 13,380	$ 12,522

(In Thousands)

Note 3. Investments (Continued)

Net Investment income (loss) for the years ended June 30, 2023 and 2022, is comprised as follows:

	2023	2022
Interest and dividend income	$ 196	$ 343
Realized and unrealized gains (losses), net	662	(1,744)
Investment fees	-	(96)
	$ 858	$ (1,497)

Note 4. Line of Credit

The Center maintains a $15,000 revolving line of credit with a bank, which will expire in May 2024. Borrowings are collateralized by all of the Center's assets. Monthly interest payments are the bank's 30-day indexed prime rate (8.25% and 4.75 % at June 30, 2023 and 2022, respectively) plus 0%. There were no outstanding draws on the line of credit at June 30, 2023 and 2022.

Note 5. Notes Payable

Notes payable at June 30, 2023 and 2022, consist of the following:

	2023	2022
Term loan	$ 28	$ 285
Mortgage notes	14	15
Automobile loans	329	672
	$ 371	$ 972

Term loan: A bank term loan of $2,085 was acquired during April 2009. The monthly payment for the loan is $18 with an interest rate of 3.5%. The loan matures on July 24, 2023.

Mortgage notes: The Center has a real estate mortgage note with a principal balance of $14 and $15 at June 30, 2023 and 2022, respectively. The real estate associated with this note is used to provide facilities-based day programming. The note has an interest rate of 6% and calls for monthly payments of principal and interest of approximately $0.5.

Automobile loans: MHTC has automobile loans with various interest rates averaging 4.91% and payment terms over 60 months. Monthly payments on these loans as of June 30, 2023, average $26.

The minimum principal payments on the mortgage, term loan, and automobile loans at June 30, 2023, are as follows:

Years ending June 30:	
2024	$ 330
2025	41
	$ 371

Interest expense for the years ended June 30, 2023 and 2022 was $80 and $83, respectively.

(In Thousands)

Note 6. Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. This topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Center performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy at June 30, 2023 and 2022:

	2023			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	$ 3,137	$ -	$ 3,137	$ -
Corporate bonds	891	-	891	-
Cash and cash equivalents:				
Institutional money market	1,385	1,385	-	-
Equity securities:				
Basic materials	200	200	-	-
Communication services	28	28	-	-
Consumer cyclical	141	141	-	-
Consumer defensive	19	19	-	-
Consumer discretionary	364	364	-	-
Consumer staples	416	416	-	-
Energy	260	260	-	-
Event driven	461	461	-	-
Financial services	589	589	-	-
Healthcare	280	280	-	-
Industrials	425	425	-	-
Large growth	569	569	-	-
Large value	736	736	-	-
Long-short equity	465	465	-	-
Multialternative	656	656	-	-
Real estate	113	113	-	-
Relative value arbitrage	219	219	-	-
Small value	848	848	-	-
Technology	1,028	1,028	-	-
Utilities	150	150	-	-
	$ 13,380	$ 9,352	$ 4,028	$ -

(In Thousands)

Note 6. Fair Value Measurements (Continued)

	2022			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	$ 3,622	$ -	$ 3,622	$ -
Corporate bonds	954	-	954	-
Cash and cash equivalents:				
Institutional money market	712	712	-	-
Equity securities:				
Basic materials	187	187	-	-
Communication services	53	53	-	-
Consumer cyclical	134	134	-	-
Consumer defensive	18	18	-	-
Consumer discretionary	316	316	-	-
Consumer staples	312	312	-	-
Energy	218	218	-	-
Event driven	476	476	-	-
Financial services	496	496	-	-
Healthcare	310	310	-	-
Industrials	294	294	-	-
Large growth	745	745	-	-
Large value	851	851	-	-
Long-short equity	459	459	-	-
Multialternative	510	510	-	-
Real estate	170	170	-	-
Relative value arbitrage	529	529	-	-
Small value	463	463	-	-
Technology	557	557	-	-
Utilities	136	136	-	-
	$ 12,522	$ 7,946	$ 4,576	$ -

The equity securities of the Center are publicly traded and are considered Level 1 items. The Center's government bonds and corporate bonds are priced based on their stated interest rates and quality ratings. The interest and quality ratings are observable at commonly quoted intervals for the full term of the instruments and are, therefore, considered Level 2 items.

(In Thousands)

Note 7. Net Assets

Net assets with donor restrictions include donor-restricted funds, which are only available for program activities or general support designated for future years. Also, the Board of Directors of MHTC has interpreted the Maryland-enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The Board has determined that the original gift value for donor-restricted funds was $942 (100% perpetual duration) as of June 30, 2023 and 2022. As a result of this interpretation, the Center classifies the original gift amount of $942 as a part of net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Prudent application of a spending policy will reduce the net assets with donor restrictions.

	Balance June 30, 2022	Investment Losses or Contributions	Released	Balance June 30, 2023
Endowment funds—held in perpetuity	$ 942	$ -	$ -	$ 942
Amounts subject to UPMIFA policy	312	86	(62)	336
	$ 1,254	$ 86	$ (62)	$ 1,278

	Balance June 30, 2021	Investment Losses or Contributions	Released	Balance June 30, 2022
Endowment funds—held in perpetuity	$ 942	$ -	$ -	$ 942
Amounts subject to UPMIFA policy	546	(159)	(75)	312
	$ 1,488	$ (159)	$ (75)	$ 1,254

In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Center and the with 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 Center
- The investment policies of the Center

(In Thousands)

Note 7. Net Assets (Continued)

Return objectives and risk parameters: MHTC has adopted investment and spending policies for investment assets that attempt to provide a predictable stream of funding to programs supported by its investment, while seeking to maintain the purchasing power of the investment assets. Investment assets include those assets of donor-restricted funds that MHTC must hold in perpetuity or for a donor-specified period, as well as board designated funds. Under this policy, as approved by the Board of Directors, the investment assets are invested in a manner to seek average annual returns that are on par with similar groups of investments, depending on the stated investment objectives. A specific percentage rate of return, due to the state of the economy, has not been determined. This objective shall have a long-term, indefinite time horizon, and shall provide a wide diversification of investments to reduce risk and to produce incremental returns.

Strategies employed for achieving objectives: To satisfy its long-term, incremental rate of return objectives, MHTC relies on a total return strategy, in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). MHTC targets a diversified asset allocation base with the following parameters:

	Minimum	Current Exposure	Maximum
Equities	40%	58%	60%
Fixed income and cash	30%	42%	50%
Alternatives	0%	0%	20%

Spending policy and how the investment objective relates to spending policy: Both with donor-restricted and board designated funds allow management to withdraw income from the endowment fund to be used for general operations. Effective for the year ended June 30, 2017, MHTC has adopted a 5% to 7% spending policy covering donor-restricted endowment funds. However, management, to date, has elected to roll over income to unrestricted funds for the board designated fund type.

Unrestricted board designated net assets at June 30, 2023 and 2022, consisted of $12,102 and $11,268, respectively, designated by the Center's Board of Directors to be used for the Melwood Investment Fund.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Investment net asset composition by type of fund as of June 30, 2023, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated funds	$ 12,102	$ -	$ 12,102
Donor-restricted endowment funds	-	1,278	1,278
Total funds	$ 12,102	$ 1,278	$ 13,380

(In Thousands)

Note 7. Net Assets (Continued)

Investment net asset composition by type of fund as of June 30, 2022, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated funds	$ 11,268	$ -	$ 11,268
Donor-restricted endowment funds	-	1,254	1,254
Total funds	$ 11,268	$ 1,254	$ 12,522

Changes in investment net assets for the year ended June 30, 2023, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment net assets, beginning of year	$ 11,268	$ 1,254	$ 12,522
Investment losses, net	772	86	858
Current year designations	-	-	-
Other changes:			
Appropriations	62	(62)	-
Investment net assets, end of year	$ 12,102	$ 1,278	$ 13,380

Changes in investment net assets for the year ended June 30, 2022, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment net assets, beginning of year	$ 12,531	$ 1,488	$ 14,019
Investment losses, net	(1,338)	(159)	(1,497)
Current year designations	-	-	-
Other changes:			
Appropriations	75	(75)	-
Investment net assets, end of year	$ 11,268	$ 1,254	$ 12,522

Note 8. Retirement and Other Compensation Plans

The Center has a contributory 403(b) Retirement Plan for all eligible non-Service Contract Act (SCA) employees. Employees are able to participate in the plan immediately upon hire. The plan provides a matching employer contribution under certain conditions. Employees are eligible to receive employer-matching contributions after one year of service and 1,000 hours of work with the Center. All participating employees are eligible to receive matching contributions equal to half of their elected deferral, up to 5% of wages. Employees who began employment with the Center on or after January 1, 2005, are subject to a three-year graded vesting schedule; all other employees are fully vested in the Center's contributions immediately upon receipt. For the years ended June 30, 2023 and 2022, the Center contributed $639 and $337, respectively, to the plan.

Note 8. Retirement and Other Compensation Plans (Continued)

The Center has a contributory 401(k) Retirement Plan for all SCA employees. Eligible employees are able to elect to have a portion of their pay deferred to this plan. There is no employer match. Additionally, the plan contains the Melwood Service Contract Act Retirement Plan (SCRP).

The Center has the SCRP falling under the SCA for its service contract employees working 10 or more hours per month. Employees earn Health and Welfare funding on a per hour paid basis up to a maximum of 40 hours per week. Health and Welfare dollars pay for active employee benefits. Excess funds are then collected in a Premium Reserve Account until it has a balance equivalent to three months' premiums. After that, excess Health and Welfare funding is placed in the SCRP on a quarterly basis.

The Center has a contingent executive severance obligation for the President and Chief Executive Officer in the case of an involuntary termination without cause. Upon such an event, a predetermined portion of one year's annual salary and any prorated earned bonus is required to be paid by the Center to the President/Chief Executive Officer. This payment may be made in one lump sum or over a reasonable period of time using standard pay practices at the Center's discretion.

The Center has established two deferred compensation plans under Section 457(b) and Section 457(f) of the IRC for the benefit of the President and all C-suite members and vice presidents. Eligible contributions made the 457(b) plan vest immediately, but contributions made to the 457(f) plan vest on June 30, 2023. Assets in the plans at June 30, 2023 and 2022, were $55 and $134, respectively, and are included in other assets on the consolidated balance sheets. Accrued liabilities related to the plans at June 30, 2023 and 2022, were $55 and $156, respectively, and are included in other liabilities in the consolidated balance sheets.

Note 9. Customer Concentrations

During the years ended June 30, 2023 and 2022, 85% of the Center's revenue was substantially derived from contracts with the federal government through the AbilityOne program. Significant reduction of funding under these contracts would have a significant impact on the operations of the Center.

Note 10. Leases

The Center determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. Under Topic 842, a contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Center also considers whether its service arrangements include the right to control the use of an asset.

The Center leases a premise for general office use from unrelated parties under an operating lease agreement that has remaining terms of less than one year. There is no option to renew the lease and does not contain any material restrictive covenants.

Operating lease cost is recognized on a straight-line basis over the lease term and totaled $150 for the year ended June 30, 2022. Short-term lease expenses are not material to the Center. The weighted-average remaining lease term is 0.5 years, with a weighted-average discount rate of 0.79%. Total cash payments made on operating leases was $149 during the year ended December 31, 2022. Future lease payments due in 2024 total $75.

(In Thousands)

Note 10. Leases (Continued)

Under ASC Topic 840, total rent expense under operating leases was $149 for the year ended June 30, 2022. The Company historically recognized related rent expense on a straight-line basis over the term of the lease.

Note 11. Contingencies

Grants: The Center receives support and revenue in the form of grants and contributions. The principal grantor is the state of Maryland, Department of Health and Mental Hygiene. Final determination of allowable costs is subject to audit or review by representatives or agents of the appropriate grantor. Management does not anticipate any adjustments by the grantors. The Center relies on the continued receipt of grants and contributions to provide ongoing programs.

Letters of credit: The Center has $1,220 in letters of credit with a financial institution to cover potential workers' compensation claims. The letter with the financial institution is required by the Center's workers' compensation insurer and allows the insurer to draw on it at any time. In addition, another letter of credit for $353 is in effect with the state of Maryland to cover unemployment costs, as the Center is self-insured. These letters of credit continue until final termination of the prior workers' compensation and until continued unemployment claims are finalized.

Claims and litigation: In the ordinary course of business, the Center is a party to claims and litigation. Management, based on consultation with legal counsel, is of the opinion that the ultimate outcome of these matters will not have a material impact on the financial position, change in net assets or liquidity of the Center.

Self-insured agreement: MHTC maintains a self-insurance program for its unemployment insurance coverage for the states of Maryland and Virginia, and the District of Columbia. Self-insurance cost is accrued based on claims reported as of the consolidated balance sheets date, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insured unemployment costs was $746 and $532 as of June 30, 2023 and 2022, respectively.

Effective January 1, 2014, MHTC maintains a self-insured medical health plan model and a high-deductible workers' compensation plan, whereby MHTC covers the cost of medical claims its employees incur. MHTC has stop loss coverage for this plan to cover claims in excess of $200 per participant per year. Employees make contributions to the plan consistent with premiums paid per the old plan based on type of coverage. MHTC's liabilities for the self-insured medical health plan and workers' compensation plan are as follows:

	2023	2022
Self-insured medical health plan	$ 1,686	$ 944
Workers' compensation plan	746	532
	$ 2,432	$ 1,476

Note 12. Liquidity

MHTC regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of June 30, 2023, the following financial assets are available to meet annual operating needs of the 2024 fiscal year:

(In Thousands)

Note 12. Liquidity (Continued)

	2023	2022
Cash and cash equivalents	$ 12,116	$ 13,949
Accounts receivable, net	26,064	23,707
Anticipated withdrawal on endowment in 2024 and 2023, respectively	62	75
Total financial assets available for general expenditure within one year	$ 38,242	$ 37,731

MHTC has various sources of liquidity at its disposal, including cash and cash equivalents, and a line of credit. See Note 4 for information about the Center's line of credit.

In general, principal and interest on endowment are board designated investments and the funds are not included in the analysis as those amounts are for long-term expanding beyond one year or more, therefore, these assets are not available to meet current operating needs. However, as a part of MHTC's policy, 5% to 7% of net assets with donor restrictions endowment funds are moved and available for general operations at management discretion. Unconditional contributions received or receivable due within one year are considered available for use in meeting annual operating needs (liquid), and conditional contributions become liquid as barriers/obligations are met. As discussed in Note 7, the Board has designated net assets in the amount of $11,268 for long-term investment. As such, these funds are not reflected as available for general expenditure over the next 12 months. However, the Board may undesignate all or a portion of these funds on a current basis at its discretion.