

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Financial Report
June 30, 2021

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RSM US LLP

Independent Auditor's Report

Board of Directors
Melwood Horticultural Training Center, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Melwood Horticultural Training Center, Inc. and Affiliates (the Center), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, 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).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Melwood Horticultural Training Center, Inc. and Affiliates as of June 30, 2021 and 2020, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Center has adopted a new accounting standard, Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers. Our opinion is not modified with respect to this matter.

RSM US LLP

Gaithersburg, Maryland
November 16, 2021

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Balance Sheets

June 30, 2021 and 2020

(In Thousands)

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,829	\$ 9,114
Receivables, net	17,808	19,141
Inventory	154	44
Prepaid expenses	309	481
Total current assets	31,100	28,780
Property and equipment, net	20,866	20,277
Investments	14,019	10,210
Other assets	663	503
	\$ 66,648	\$ 59,770
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,934	\$ 9,367
Accrued payroll and withheld taxes	5,327	5,421
Notes payable, current portion	672	718
Deferred revenue	2,502	2,619
Total current liabilities	17,435	18,125
Notes payable, net of current portion	985	1,663
Other liabilities	291	239
Total liabilities	18,711	20,027
Contingencies (Note 10)		
Net assets:		
Without donor restrictions:		
Undesignated	33,918	29,533
Board designated	12,531	8,902
	46,449	38,435
With donor restrictions	1,488	1,308
	47,937	39,743
	\$ 66,648	\$ 59,770

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statements of Activities
Years Ended June 30, 2021 and 2020
(In Thousands)

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Public support:						
Monetary contributions	\$ 238	\$ -	\$ 238	\$ 317	\$ -	\$ 317
Donated items	3,090	-	3,090	2,407	-	2,407
Government and private grants	1,485	-	1,485	254	-	254
Contract revenue	100,283	-	100,283	93,309	-	93,309
Service fees	8,254	-	8,254	9,458	-	9,458
Other	133	-	133	229	-	229
Net assets released from restrictions	65	(65)	-	68	(68)	-
	113,548	(65)	113,483	106,042	(68)	105,974
Investment income, net	1,692	245	1,937	118	14	132
Total support and revenue	115,240	180	115,420	106,160	(54)	106,106
Expenses:						
Program expenses:						
Employment services	78,680	-	78,680	75,595	-	75,595
Community services	11,075	-	11,075	12,580	-	12,580
Therapeutic services	826	-	826	1,300	-	1,300
Veterans services	498	-	498	1,275	-	1,275
Total program expenses	91,079	-	91,079	90,750	-	90,750
Supporting services:						
Management and general	12,747	-	12,747	12,596	-	12,596
Fundraising	3,400	-	3,400	3,560	-	3,560
Total supporting services	16,147	-	16,147	16,156	-	16,156
Total expenses	107,226	-	107,226	106,906	-	106,906
Change in net assets before gain on disposition	8,014	180	8,194	(746)	(54)	(800)
Gain on disposition	-	-	-	110	-	110
Change in net assets	8,014	180	8,194	(636)	(54)	(690)
Net assets:						
Beginning	38,435	1,308	39,743	39,071	1,362	40,433
Ending	\$ 46,449	\$ 1,488	\$ 47,937	\$ 38,435	\$ 1,308	\$ 39,743

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2021
(In Thousands)

	Program Expenses					Supporting Services			Total
	Employment Services	Community Services	Therapeutic Services	Veterans Services	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	
Wages and salaries	\$ 40,112	\$ 7,588	\$ 320	\$ 320	\$ 48,340	\$ 4,459	\$ 1,181	\$ 5,640	\$ 53,980
Employee benefits	12,248	2,312	101	96	14,757	1,566	367	1,933	16,690
Total salaries and related expenses	52,360	9,900	421	416	63,097	6,025	1,548	7,573	70,670
Professional and consulting fees	64	149	11	26	250	1,985	217	2,202	2,452
Supplies and materials	3,103	119	88	3	3,313	192	61	253	3,566
Buildings and occupancy	880	247	131	14	1,272	1,424	62	1,486	2,758
Equipment, maintenance and rental	990	241	36	4	1,271	2,186	97	2,283	3,554
Support and contract services	20,438	123	1	-	20,562	132	1,338	1,470	22,032
Travel and entertainment	73	100	6	1	180	47	3	50	230
Miscellaneous expenses	75	19	1	-	95	(73)	45	(28)	67
Interest expense and bank fees	1	-	-	-	1	189	1	190	191
Depreciation expense	696	177	131	34	1,038	640	28	668	1,706
Total expenses	\$ 78,680	\$ 11,075	\$ 826	\$ 498	\$ 91,079	\$ 12,747	\$ 3,400	\$ 16,147	\$ 107,226

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2020
(In Thousands)

	Program Expenses					Supporting Services			Total
	Employment Services	Community Services	Therapeutic Services	Veterans Services	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	
Wages and salaries	\$ 39,911	\$ 8,472	\$ 463	\$ 606	\$ 49,452	\$ 5,404	\$ 1,088	\$ 6,492	\$ 55,944
Employee benefits	12,108	2,573	140	188	15,009	1,623	334	1,957	16,966
Total salaries and related expenses	52,019	11,045	603	794	64,461	7,027	1,422	8,449	72,910
Professional and consulting fees	21	146	10	171	348	1,185	256	1,441	1,789
Supplies and materials	3,736	119	209	48	4,112	247	63	310	4,422
Buildings and occupancy	654	231	160	21	1,066	1,220	78	1,298	2,364
Equipment, maintenance and rental	934	340	40	7	1,321	1,800	96	1,896	3,217
Support and contract services	17,534	75	1	36	17,646	215	1,498	1,713	19,359
Travel	68	390	134	150	742	74	23	97	839
Other	36	39	-	7	82	45	92	137	219
Interest and bank fees	-	-	2	-	2	175	3	178	180
Depreciation and amortization	593	195	141	41	970	608	29	637	1,607
Total expenses	\$ 75,595	\$ 12,580	\$ 1,300	\$ 1,275	\$ 90,750	\$ 12,596	\$ 3,560	\$ 16,156	\$ 106,906

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020
(In Thousands)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 8,194	\$ (690)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,706	1,607
Change in allowance for doubtful accounts	(93)	(15)
Unrealized and realized (gain) loss on investment, net	(1,765)	92
Gain on disposition	-	(110)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	1,426	355
Inventory	(110)	67
Prepaid expenses	172	(55)
Other assets	(160)	829
Increase (decrease) in:		
Accounts payable and accrued expenses	(433)	769
Accrued payroll and withheld taxes	(94)	727
Deferred revenue	(117)	2,060
Other liabilities	52	91
Net cash provided by operating activities	8,778	5,727
Cash flows from investing activities:		
Purchase of property and equipment	(2,295)	(1,482)
Purchase of investments	(14,077)	(5,753)
Proceeds from sale of investments	12,033	5,518
Net cash used in investing activities	(4,339)	(1,717)
Cash flows from financing activities:		
Principal payments on notes payable	(724)	(765)
Proceeds from notes payable	-	418
Net cash used in financing activities	(724)	(347)
Net increase in cash and cash equivalents	3,715	3,663
Cash and cash equivalents:		
Beginning	9,114	5,451
Ending	\$ 12,829	\$ 9,114
Supplemental disclosure of cash flow information:		
Interest paid	\$ 94	\$ 113

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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-Dolly Housing, Inc. (MDH) and Melwood Veterans Services, LLC (MVS).

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.

MDH is a Maryland corporation, financially supported by U.S. Department of Housing and Urban Development (HUD) funds under Section 202 of the National Housing Act, or Section 811 of the National Affordable Housing Act. Sections 202 and 811 require compliance with regulations as required by HUD. MHTC had control over the Board of Directors of MDH. MDH was disposed of during the year ended June 30, 2020, when the Board of MHTC transferred control of the entity to an unrelated nonprofit organization.

MHTC established MVS, a Maryland Limited Liability Company, 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' 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, 2021, there has yet to be any economic activity within the MVS entity.

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

Principles of consolidation: The consolidated financial statements include the accounts of MHTC, MDH and MVS. All significant intercompany accounts and transactions have been eliminated for 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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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

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.

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. The provision for doubtful accounts at June 30, 2021 and 2020, was \$201 and \$294, respectively.

Unbilled accounts receivables 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.

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 of 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.

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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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

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 income (loss) in the consolidated statements of activities.

Revenue: On July 1, 2020, the Center adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers, (Topic 606)*, using the modified retrospective method applied to those contracts which were not completed as of June 30, 2020. Results for reporting periods beginning July 1, 2020, are presented under Topic 606. No transition adjustment was recognized.

The Center recognizes revenue using a five-step process that includes: (1) identify the contact with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations and (5) recognizing 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.

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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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

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.

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.

Donated materials consist of vehicles from private donors, 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, 2021 and 2020, the Center incurred advertising costs of \$874 and \$1,171, respectively.

Income taxes: MHTC, MDH and MVS 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, MDH and MVS did not have any material net unrelated business income for the years ended June 30, 2021 and 2020.

The Center adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Center may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position.

Management evaluated the Center's tax positions and concluded that the Center has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. Generally, the Center is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2018.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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

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 evaluated subsequent events through November 16, 2021, which is the date the consolidated financial statements were available to be issued.

Recent accounting pronouncements (not adopted): In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. In addition, in July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*. The standard provides further guidance on technical issues brought to the FASB's attention in connection with the implementation of ASU 2016-02. The effective date is the same as the effective date of ASU 2016-02. The Center is currently evaluating the impact of adopting the new standard on the consolidated financial statements.

Note 2. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2021, and depreciation expense for the year ended June 30, 2021, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net Book Value	Depreciation
Buildings and improvements	6 to 40 years	\$ 26,134	\$ 14,520	\$ 11,614	\$ 818
Transportation equipment	3 to 7 years	8,294	7,244	1,050	401
Training equipment and furnishings	3 to 10 years	6,274	4,952	1,322	403
Office equipment	3 to 7 years	5,835	5,149	686	84
Land	–	5,809	-	5,809	-
Work in progress – construction	–	385	-	385	-
Residential equipment	3 to 10 years	11	11	-	-
		<u>\$ 52,742</u>	<u>\$ 31,876</u>	<u>\$ 20,866</u>	<u>\$ 1,706</u>

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 2. Property and Equipment (Continued)

Property and equipment and accumulated depreciation at June 30, 2020, and depreciation expense for the year ended June 30, 2020, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net Book Value	Depreciation
Buildings and improvements	6 to 40 years	\$ 25,227	\$ 13,708	\$ 11,519	\$ 736
Transportation equipment	3 to 7 years	8,102	7,152	950	377
Training equipment and furnishings	3 to 10 years	5,626	4,542	1,084	363
Office equipment	3 to 7 years	5,835	5,065	770	120
Land	–	5,809	-	5,809	-
Work in progress – construction	–	145	-	145	-
Residential equipment	3 to 10 years	11	11	-	11
		<u>\$ 50,755</u>	<u>\$ 30,478</u>	<u>\$ 20,277</u>	<u>\$ 1,607</u>

Note 3. Investments

Investments at June 30, 2021 and 2020, consist of the following:

	2021	2020
Equity securities, including exchange traded funds and mutual funds	\$ 8,434	\$ 5,328
Fixed income securities and mutual funds	5,396	2,504
Cash and cash equivalents	189	2,378
	<u>\$ 14,019</u>	<u>\$ 10,210</u>

Net Investment income for the years ended June 30, 2021 and 2020, is comprised as follows:

	2021	2020
Interest and dividend income	\$ 231	\$ 283
Realized and unrealized gains (losses), net	1,765	(92)
Investment fees	(59)	(59)
	<u>\$ 1,937</u>	<u>\$ 132</u>

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 (4.0% and 3.25% at June 30, 2021 and 2020, respectively) plus 0%. The line of credit balance as of June 30, 2021 and 2020, was \$0.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 5. Notes Payable

Notes payable at June 30, 2021 and 2020, consist of the following:

	2021	2020
Term loan	\$ 480	\$ 673
Mortgage notes	24	37
Automobile loans	1,153	1,671
	<u>\$ 1,657</u>	<u>\$ 2,381</u>

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 \$24 and \$37 at June 30, 2021 and 2020, 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 \$1.

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, 2021, total \$43.

The minimum principal payments on the mortgage, term loan, and automobile loans at June 30, 2021, are as follows:

Years ending June 30:		
2022		\$ 672
2023		560
2024		353
2025		72
		<u>\$ 1,657</u>

Interest expense for the years ended June 30, 2021 and 2020, was \$94 and \$113, respectively.

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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 6. Fair Value Measurements (Continued)

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, 2021 and 2020:

	2021			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	\$ 1,701	\$ -	\$ 1,701	\$ -
Corporate bonds	3,695	-	3,695	-
Cash and cash equivalents:				
Institutional money market	189	189	-	-
Equity securities:				
Basic materials	308	308	-	-
Communication services	69	69	-	-
Consumer cyclical	184	184	-	-
Consumer defensive	28	28	-	-
Consumer discretionary	480	480	-	-
Consumer staples	264	264	-	-
Energy	266	266	-	-
Event driven	456	456	-	-
Financial services	633	633	-	-
Healthcare	290	290	-	-
Industrials	512	512	-	-
Large growth	961	961	-	-
Large value	912	912	-	-
Long-short equity	472	472	-	-
Multialternative	526	526	-	-
Real estate	183	183	-	-
Relative value arbitrage	528	528	-	-
Small value	515	515	-	-
Technology	679	679	-	-
Utilities	168	168	-	-
	<u>\$ 14,019</u>	<u>\$ 8,623</u>	<u>\$ 5,396</u>	<u>\$ -</u>

Melwood Horticultural Training Center, Inc. and Affiliates

**Notes to Consolidated Financial Statements
(In Thousands)**

Note 6. Fair Value Measurements (Continued)

	2020			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	\$ 1,465	\$ -	\$ 1,465	\$ -
Corporate bonds	1,039	-	1,039	-
Cash and cash equivalents:				
Institutional money market	2,378	2,378	-	-
Equity securities:				
Basic materials	292	292	-	-
Communication services	63	63	-	-
Consumer cyclical	488	488	-	-
Consumer defensive	291	291	-	-
Consumer services	149	149	-	-
Energy	-	-	-	-
Financial	398	398	-	-
Healthcare	278	278	-	-
Industrial goods	442	442	-	-
Large growth	690	690	-	-
Large value	614	614	-	-
Multialternative	863	863	-	-
Real estate	126	126	-	-
Technology	536	536	-	-
Utilities	98	98	-	-
World bond	-	-	-	-
	<u>\$ 10,210</u>	<u>\$ 7,706</u>	<u>\$ 2,504</u>	<u>\$ -</u>

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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (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, 2021 and 2020. 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, 2020	Investment Gains or Contributions	Released	Balance June 30, 2021
Endowment funds – held in perpetuity	\$ 942	\$ -	\$ -	\$ 942
Amounts subject to UPMIFA policy	366	245	(65)	546
	<u>\$ 1,308</u>	<u>\$ 245</u>	<u>\$ (65)</u>	<u>\$ 1,488</u>

	Balance June 30, 2019	Investment Gains or Contributions	Released	Balance June 30, 2020
Endowment funds – held in perpetuity	\$ 942	\$ -	\$ -	\$ 942
Amounts subject to UPMIFA policy	420	14	(68)	366
	<u>\$ 1,362</u>	<u>\$ 14</u>	<u>\$ (68)</u>	<u>\$ 1,308</u>

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

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (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%	60%	60%
Fixed income	30%	39%	50%
Cash	0%	1%	10%

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, 2021 and 2020, consisted of \$12,531 and \$8,902, respectively, designated by the Center's Board of Directors to be used for the Melwood Investment Fund.

Investment net asset composition by type of fund as of June 30, 2021, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated funds	\$ 12,531	\$ -	\$ 12,531
Donor-restricted endowment funds	-	1,488	1,488
Total funds	<u>\$ 12,531</u>	<u>\$ 1,488</u>	<u>\$ 14,019</u>

Melwood Horticultural Training Center, Inc. and Affiliates

**Notes to Consolidated Financial Statements
(In Thousands)**

Note 7. Net Assets (Continued)

Investment net asset composition by type of fund as of June 30, 2020, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated funds	\$ 8,902	\$ -	\$ 8,902
Donor-restricted endowment funds	-	1,308	1,308
Total funds	<u>\$ 8,902</u>	<u>\$ 1,308</u>	<u>\$ 10,210</u>

Changes in investment net assets for the year ended June 30, 2021, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment net assets, beginning of year	\$ 8,902	\$ 1,308	\$ 10,210
Investment income, net	1,692	245	1,937
Current year designations	1,937	-	1,937
Other changes:			
Appropriations	-	(65)	(65)
Investment net assets, end of year	<u>\$ 12,531</u>	<u>\$ 1,488</u>	<u>\$ 14,019</u>

Changes in investment net assets for the year ended June 30, 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment net assets, beginning of year	\$ 8,709	\$ 1,362	\$ 10,071
Investment income, net	118	14	132
Contributions	75	-	75
Other changes:			
Appropriations	-	(68)	(68)
Investment net assets, end of year	<u>\$ 8,902</u>	<u>\$ 1,308</u>	<u>\$ 10,210</u>

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, 2021 and 2020, the Center contributed \$322 and \$163, respectively, to the plan.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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 Chief Executive Officer. Eligible contributions made to the 457(b) plan vest immediately, but contributions made to the 457(f) plan vest on June 30, 2021. Assets in the plans at June 30, 2021 and 2020, were \$291 and \$239, respectively, and included in other assets on the consolidated balance sheets. Accrued liabilities related to the plans at June 30, 2021 and 2020, were \$291 and \$239, respectively, and included in other liabilities in the consolidated balance sheets.

Note 9. Customer Concentrations

During the years ended June 30, 2021 and 2020, 88% 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. 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 \$460 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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 10. Contingencies (Continued)

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 \$445 and \$450 as of June 30, 2021 and 2020, 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:

	2021	2020
Self-insured medical health plan	\$ 1,197	\$ 1,197
Workers' compensation plan	445	450
	<u>\$ 1,642</u>	<u>\$ 1,647</u>

Pandemic: Subsequent to the coronavirus (COVID-19) outbreak in March 2020 in the United States, there has been substantial volatility in the financial markets and the economy. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. Management is continually monitoring the potential impact of COVID-19 on the Center. As of June 30, 2021, the Center continues regularly scheduled operations, while making efforts to comply with social distancing and CDC recommended hygiene guidelines. The extent to which COVID-19 impacts the Center's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information, which may emerge concerning the severity of COVID-19 and actions taken to contain COVID-19, or its impact, among others. To date, the Center has not experienced a significant impact on operations as the Center primarily works with the federal government, and operations have been maintained.

Note 11. 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, 2021, the following financial assets are available to meet annual operating needs of the 2022 fiscal year:

	2021	2020
Cash and cash equivalents	\$ 12,829	\$ 9,114
Accounts receivable, net	17,808	19,141
Anticipated withdrawal on endowment in 2022 and 2021, respectively	65	68
Total financial assets available for general expenditure within one year	<u>\$ 30,702</u>	<u>\$ 28,323</u>

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 11. Liquidity (Continued)

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 \$12,531 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.