

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Financial Report
June 30, 2024

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RSM US LLP

Independent Auditor's Report

Board of Directors
Melwood Horticultural Training Center, Inc.

Report on the Audit of the Financial Statements

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, 2024 and 2023, and 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, 2024 and 2023, 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 audit for the year ended June 30, 2024 in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). We conducted our audit for the year ended June 30, 2023 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2025, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

RSM US LLP

Gaithersburg, Maryland
March 10, 2025

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Balance Sheets
June 30, 2024 and 2023
(In Thousands)

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,034	\$ 12,116
Receivables, net	26,085	26,064
Inventory	259	193
Prepaid expenses	867	690
Total current assets	36,245	39,063
Property and equipment, net	21,508	19,158
Right-of-use lease asset—operating	-	75
Investments	17,877	13,380
Other assets	1,286	1,128
Total assets	\$ 76,916	\$ 72,804
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,247	\$ 8,000
Accrued payroll and withheld taxes	6,940	6,181
Notes payable, current portion	77	330
Right-of-use lease liability—operating	-	76
Deferred revenue	140	48
Total current liabilities	16,404	14,635
Notes payable, net of current portion	-	41
Equity method investment	227	247
Other liabilities	72	55
Total liabilities	16,703	14,978
Contingencies (Note 10)		
Net assets:		
Without donor restrictions:		
Undesignated	45,405	44,446
Board designated	13,351	12,102
Total net assets without donor restrictions	58,756	56,548
With donor restrictions	1,457	1,278
Total net assets	60,213	57,826
Total liabilities and net assets	\$ 76,916	\$ 72,804

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statements of Activities Years Ended June 30, 2024 and 2023 (In Thousands)

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Public support:						
Monetary contributions	\$ 428	\$ 108	\$ 536	\$ 637	\$ -	\$ 637
Nonfinancial contributions	2,406	-	2,406	2,800	-	2,800
Government and private grants	1,998	-	1,998	1,581	-	1,581
Contract revenue	104,840	-	104,840	99,805	-	99,805
Service fees	9,287	-	9,287	12,374	-	12,374
Other	174	-	174	183	-	183
Net assets released from restrictions	64	(64)	-	62	(62)	-
Total public support	119,197	44	119,241	117,442	(62)	117,380
Investment income, net	1,254	135	1,389	772	86	858
Total support and revenue	120,451	179	120,630	118,214	24	118,238
Expenses:						
Program expenses:						
Employment services	81,315	-	81,315	79,645	-	79,645
Community services	15,754	-	15,754	11,806	-	11,806
Therapeutic services	2,023	-	2,023	1,890	-	1,890
Total program expenses	99,092	-	99,092	93,341	-	93,341
Supporting services:						
Management and general	16,515	-	16,515	15,266	-	15,266
Fundraising	2,697	-	2,697	2,309	-	2,309
Total supporting services	19,212	-	19,212	17,575	-	17,575
Total expenses	118,304	-	118,304	110,916	-	110,916
Change in net assets before other income (loss)	2,147	179	2,326	7,298	24	7,322
Other income (loss):						
Gain (loss) from equity method investment	20	-	20	(247)	-	(247)
Gain (loss) on asset disposition	41	-	41	(152)	-	(152)
Total other income (loss)	61	-	61	(399)	-	(399)
Change in net assets	2,208	179	2,387	6,899	24	6,923
Net assets:						
Beginning	56,548	1,278	57,826	49,649	1,254	50,903
Ending	\$ 58,756	\$ 1,457	\$ 60,213	\$ 56,548	\$ 1,278	\$ 57,826

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2024
(In Thousands)**

	Program Expenses				Supporting Services			Total
	Employment Services	Community Services	Therapeutic Services	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	
Wages and salaries	\$ 42,851	\$ 9,760	\$ 797	\$ 53,408	\$ 7,118	\$ 777	\$ 7,895	\$ 61,303
Employee benefits	11,329	2,652	165	14,146	1,392	211	1,603	15,749
Total salaries and related expenses	54,180	12,412	962	67,554	8,510	988	9,498	77,052
Professional and consulting fees	332	1,487	249	2,068	1,957	158	2,115	4,183
Supplies and materials	4,304	140	298	4,742	290	24	314	5,056
Buildings and occupancy	414	169	168	751	1,258	24	1,282	2,033
Equipment, maintenance and rental	1,163	446	156	1,765	2,597	8	2,605	4,370
Support and contract services	19,868	317	60	20,245	599	1,183	1,782	22,027
Travel and entertainment	86	160	58	304	119	86	205	509
Miscellaneous expenses	268	380	2	650	244	214	458	1,108
Interest expense and bank fees	-	6	5	11	85	6	91	102
Depreciation expense	700	237	65	1,002	856	6	862	1,864
Total expenses	\$ 81,315	\$ 15,754	\$ 2,023	\$ 99,092	\$ 16,515	\$ 2,697	\$ 19,212	\$ 118,304

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				Total
	Employment Services	Community Services	Therapeutic Services	Total Program Expenses	Management and General	Fundraising	Total Supporting Services		
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 Statements of Cash Flows

Years Ended June 30, 2024 and 2023

(In Thousands)

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 2,387	\$ 6,923
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,864	1,781
Amortization of right-of-use lease asset	75	149
Change in allowance for credit losses	-	128
Realized and unrealized gains on investments, net	(1,031)	(662)
(Gain) loss from equity method investment	(20)	247
(Gain) loss on sale/disposal of property and equipment	(41)	152
Contributions restricted for long-term purposes	(108)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(21)	(2,485)
Inventory	(66)	(62)
Prepaid expenses	(177)	(144)
Other assets	(158)	(620)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,247	(1,824)
Accrued payroll and withheld taxes	759	439
Right-of-use lease liability - operating	(76)	(148)
Deferred revenue	92	(3,350)
Other liabilities	17	(101)
Net cash provided by operating activities	4,743	423
Cash flows from investing activities:		
Purchases of property and equipment	(4,217)	(1,459)
Proceeds from sale of property and equipment	44	-
Purchases of investments	(6,629)	(7,589)
Proceeds from sale of investments	3,163	7,393
Net cash used in investing activities	(7,639)	(1,655)
Cash flows from financing activities:		
Principal payments on notes payable	(294)	(601)
Collection of contributions restricted for long-term purposes	108	-
Net cash used in financing activities	(186)	(601)
Net decrease in cash and cash equivalents	(3,082)	(1,833)
Cash and cash equivalents:		
Beginning	12,116	13,949
Ending	\$ 9,034	\$ 12,116
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 82	\$ 80

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 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 3,000 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, 2022, all initiatives within MVS have been discontinued, therefore, there has been no activity during the years ended June 30, 2024 and 2023.

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, 2024, 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, MVS and MHTC. 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.

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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (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 credit losses based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for credit losses by identifying troubled accounts by using the historical experience applied to an aging of accounts, the existing economic conditions in the industry and reasonable and supportable forecasts of future economic conditions. 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, 2024, June 30, 2023, and June 30, 2022, are as follows:

	2024	2023	2022
Billed accounts receivable	\$ 26,363	\$ 25,256	\$ 23,908
Contract assets	51	1,137	-
	<u>26,414</u>	<u>26,393</u>	<u>23,908</u>
Less allowance for credit losses	(329)	(329)	(201)
	<u>\$ 26,085</u>	<u>\$ 26,064</u>	<u>\$ 23,707</u>
Contract liabilities	<u>\$ 140</u>	<u>\$ 48</u>	<u>\$ 3,398</u>

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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (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.

Impairment of long-lived assets: The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate such value may not be recoverable. Recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to future net cash flows expected to be generated by the asset or asset group. If such assets or asset groups are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets or asset groups exceeds the fair value of the assets or asset groups. Assets or asset groups to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairment of its long-lived assets or asset groups has been recognized during the years ended June 30, 2024 and 2023.

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), 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 (loss) of the affiliate is reflected in the consolidated statements of activities as gain (loss) from equity method investment. Condensed financial information as of and for the years ended June 30, 2024 and 2023, is shown below:

	2024	2023
Total assets	\$ 55	\$ 68
Total liabilities	\$ 358	\$ 397
Total revenues	\$ 2,300	\$ 1,447
Total expenses	\$ 2,274	\$ 1,776

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 contract 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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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.

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 Center 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, 2024 and 2023, the Center incurred advertising costs of \$907 and \$1,173, respectively.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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, 2024 and 2023.

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.

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.

Lease assets and lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. To determine the present value of lease payments, the Center made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date. Operating lease expense is recognized on a straight-line basis over the lease term.

Right-of-use (ROU) lease asset—operating represent the Center's right to use an underlying asset during the lease term and ROU lease liability—operating represent the Center's obligation to make lease payments arising from the lease. ROU lease asset—operating and ROU lease liability—operating are reflected in the consolidated balance sheets. Leases with a lease term of 12 months or less at commencement are not recorded in the consolidated balance sheets.

There were no ROU lease asset—operating or ROU lease liability—operating at June 30, 2024. ROU lease asset—operating and ROU lease liability—operating were \$75 and \$76, respectively, at June 30, 2023.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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

Fair value measurement: 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.

Recently adopted accounting pronouncement: In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost. The ASU requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the consolidated statements of activities as the amounts expected to be collected change. The Center adopted ASU 2016-13 effective July 1, 2023. The adoption of ASU 2016-13 did not have a material impact on the consolidated financial statements.

Subsequent events: The Center has evaluated subsequent events through March 10, 2025, the date on which the consolidated financial statements were available to be issued.

Note 2. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2024, and depreciation expense for the year ended June 30, 2024, are as follows:

Asset Category	Estimated Useful Lives (Years)	Cost	Accumulated Depreciation	Net Book Value	Depreciation
Buildings and improvements	6-40	\$ 28,766	\$ 15,392	\$ 13,374	\$ 779
Transportation equipment	3-7	7,056	6,766	290	515
Training equipment and furnishings	3-10	5,399	4,398	1,001	411
Office equipment	3-7	2,168	1,508	660	159
Land	—	5,757	-	5,757	-
Work in progress—construction	—	426	-	426	-
Residential equipment	3-10	6	6	-	-
		<u>\$ 49,578</u>	<u>\$ 28,070</u>	<u>\$ 21,508</u>	<u>\$ 1,864</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, 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	-	-
		<u>\$ 45,832</u>	<u>\$ 26,674</u>	<u>\$ 19,158</u>	<u>\$ 1,781</u>

Note 3. Investments

Investments at June 30, 2024 and 2023, consist of the following:

	2024	2023
Equity securities, including exchange traded funds and mutual funds	\$ 9,362	\$ 7,967
Fixed income securities and mutual funds	8,163	4,028
Cash and cash equivalents	352	1,385
	<u>\$ 17,877</u>	<u>\$ 13,380</u>

Investments at June 30, 2024 and 2023, represents the following:

	2024	2023
Board designated funds	\$ 13,351	\$ 12,102
Undesignated funds	3,069	-
Donor-restricted endowment funds	1,346	1,278
Donor-restricted endowment funds—Hathway	111	-
	<u>\$ 17,877</u>	<u>\$ 13,380</u>

Net Investment income for the years ended June 30, 2024 and 2023, is comprised as follows:

	2024	2023
Interest and dividend income	\$ 358	\$ 196
Realized and unrealized gains on investments, net	1,031	662
	<u>\$ 1,389</u>	<u>\$ 858</u>

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 4. Line of Credit

The Center maintains a \$15,000 revolving line of credit with a bank, bearing interest at the Secured Overnight Financing Rate, adjusted monthly, plus 1.39% (6.73% at June 30, 2024). Interest on the line of credit is payable monthly and expires in May 2027. The line of credit is collateralized by all assets of Center. There was no outstanding balance on the line of credit at June 30, 2024 and 2023.

Note 5. Notes Payable

Notes payable at June 30, 2024 and 2023, consist of the following:

	2024	2023
Term loan	\$ -	\$ 28
Mortgage note	5	14
Automobile loans	72	329
	<u>\$ 77</u>	<u>\$ 371</u>

Term loan: A bank term loan of \$2,085 was acquired during April 2009. The monthly payment for the loan was \$18 with an interest rate of 3.5% and was repaid in August 2023.

Mortgage note: The Center has a real estate mortgage note with a principal balance of \$5 and \$14 at June 30, 2024 and 2023, 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 4.16% and payment terms over 60 months. Monthly payments on these loans as of June 30, 2024, average \$9.

The minimum principal payments on the mortgage note and automobile loans at June 30, 2024, are as follows:

Year ending June 30:	
2025	<u>\$ 77</u>

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 6. Fair Value Measurements

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy at June 30, 2024 and 2023:

	2024			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	\$ 5,670	\$ -	\$ 5,670	\$ -
Corporate bonds	2,493	-	2,493	-
Cash and cash equivalents:				
Institutional money market	352	352	-	-
Equity securities:				
Basic materials	193	193	-	-
Communication services	88	88	-	-
Consumer cyclical	337	337	-	-
Consumer defensive	132	132	-	-
Consumer discretionary	312	312	-	-
Consumer staples	416	416	-	-
Energy	325	325	-	-
Financial services	893	893	-	-
Government bond	16	16	-	-
Healthcare	600	600	-	-
High yield bond	111	111	-	-
Industrials	665	665	-	-
Large growth	681	681	-	-
Large value	867	867	-	-
Long-short equity	502	502	-	-
Nontraditional	684	684	-	-
Real estate	92	92	-	-
Relative value arbitrage	464	464	-	-
Small value	596	596	-	-
Technology	1,215	1,215	-	-
Utilities	173	173	-	-
	<u>\$ 17,877</u>	<u>\$ 9,714</u>	<u>\$ 8,163</u>	<u>\$ -</u>

Melwood Horticultural Training Center, Inc. and Affiliates

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

Note 6. Fair Value Measurements (Continued)

	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	-	-
	<u>\$ 13,380</u>	<u>\$ 9,352</u>	<u>\$ 4,028</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 \$1,050 and \$942 (100% perpetual duration) as of June 30, 2024 and 2023, respectively. As a result of this interpretation, the Center classifies the original gift amount of \$1,050 and \$942 as of June 30, 2024 and 2023, respectively, 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, 2023	Investment Income or Contributions	Released	Balance June 30, 2024
Endowment funds—held in perpetuity	\$ 942	\$ 108	\$ -	\$ 1,050
Amounts subject to UPMIFA policy	336	135	(64)	407
	<u>\$ 1,278</u>	<u>\$ 243</u>	<u>\$ (64)</u>	<u>\$ 1,457</u>

	Balance June 30, 2022	Investment Income or Contributions	Released	Balance June 30, 2023
Endowment funds—held in perpetuity	\$ 942	\$ -	\$ -	\$ 942
Amounts subject to UPMIFA policy	312	86	(62)	336
	<u>\$ 1,254</u>	<u>\$ 86</u>	<u>\$ (62)</u>	<u>\$ 1,278</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%	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, 2024 and 2023, consisted of \$13,351 and \$12,102, 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, 2024, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated funds	\$ 13,351	\$ -	\$ 13,351
Donor-restricted endowment funds	-	1,457	1,457
Total funds	\$ 13,351	\$ 1,457	\$ 14,808

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, 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	<u>\$ 12,102</u>	<u>\$ 1,278</u>	<u>\$ 13,380</u>

Changes in investment net assets for the year ended June 30, 2024, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment net assets, beginning of year	\$ 12,102	\$ 1,278	\$ 13,380
Contributions	-	108	108
Investment income, net	1,185	135	1,320
Other changes:			
Appropriations	64	(64)	-
Investment net assets, end of year	<u>\$ 13,351</u>	<u>\$ 1,457</u>	<u>\$ 14,808</u>

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 income, net	772	86	858
Other changes:			
Appropriations	62	(62)	-
Investment net assets, end of year	<u>\$ 12,102</u>	<u>\$ 1,278</u>	<u>\$ 13,380</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, 2024 and 2023, the Center contributed \$436 and \$639, 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 all C-suite members and vice presidents. Eligible contributions made to the 457(b) plan vest immediately, but contributions made to the 457(f) plan vest on June 30, 2024. Assets in the plans at June 30, 2024 and 2023, were \$72 and \$55, respectively, and are included in other assets on the consolidated balance sheets. Accrued liabilities related to the plans at June 30, 2024 and 2023, were \$72 and \$55, respectively, and are included in other liabilities in the consolidated balance sheets.

Note 9. Customer Concentrations

During the years ended June 30, 2024 and 2023, 87% and 85%, respectively, 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. During the year ended June 30, 2024, the state of Maryland requested a recoupment of \$2,248 from the Center related to prior year activities. This amount was recorded as a reduction to service fees revenue in the consolidated statements of activities and is included in accounts payable and accrued expenses in the consolidated balance sheets. This amount was fully repaid in January 2025. 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 \$343 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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 10. Contingencies (Continued)

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 \$308 and \$746 as of June 30, 2024 and 2023, 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:

	2024	2023
Self-insured medical health plan	\$ 1,066	\$ 1,686
Workers' compensation plan	308	746
	<u>\$ 1,374</u>	<u>\$ 2,432</u>

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, 2024 and 2023, the following financial assets are available to meet annual operating needs of the 2025 and 2024 fiscal years:

	2024	2023
Cash and cash equivalents	\$ 9,034	\$ 12,116
Receivables, net	26,085	26,064
Undesignated investments	3,069	-
Anticipated withdrawal on endowment in 2025 and 2024, respectively	64	62
Total financial assets available for general expenditure within one year	<u>\$ 38,252</u>	<u>\$ 38,242</u>

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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 11. Liquidity (Continued)

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 \$13,351 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.

Note 12. Subsequent Events

In the spring of 2024, the Center began the process of a corporate restructure to separate its shared and program services from its contract services. In March 2024, two new entities were created in furtherance of this restructure: Melwood, Inc., which will act as a new parent entity that houses shared services and Melwood Community Services, Inc. that will house Melwood's program services. These entities have each received tax exempt status and began operations on January 1, 2025, when shared services employees were moved to Melwood, Inc. and program services employees were moved to Melwood Community Services, Inc.

Subsequent to year-end, the new presidential administration issued several executive orders (EOs) ordering the pause or termination of federal assistance for programs that do not align with its policies. As of the date of this report, the new administration's EOs have not had a significant impact on the Center's federal funding or program operations. The Center has not received any communications from its grantors or contractors indicating a pause or termination of funding and the Center's programs continue to operate as they did prior to the issuance of these orders. While the Center remains vigilant and closely monitors the situation, the Center has not experienced any disruptions or adverse effects on the Center's governmental/grant revenues and federal contracts. Management will continue to assess and respond to any changes as they arise.

Melwood Horticultural Training Center, Inc. and Affiliates

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Expenditures
U.S. Department of Housing and Urban Development:				
Passed-through Arlington County, Virginia:				
CDBG—Entitlement/Special Purpose Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	None	\$ -	\$ 20,422
Total CDBG—Entitlement/Special Purpose Grants Cluster/ U.S. Department of Housing and Urban Development			-	20,422
U.S. Department of Labor:				
Direct - U.S. Department of Labor:				
Occupational Safety and Health Susan Harwood Training Grants	17.502		-	92,435
Occupational Safety and Health Susan Harwood Training Grants	17.502		-	110,195
Occupational Safety and Health Susan Harwood Training Grants	17.502		-	83,172
Total Occupational Safety and Health Susan Harwood Training Grants			-	285,802
Direct—U.S. Department of Labor:				
Community Project Funding/Congressionally Directed Spending	17.289		-	79,115
Community Project Funding/Congressionally Directed Spending	17.289		-	127,928
Total Community Project Funding/Congressionally Directed Spending			-	207,043
Total U.S. Department of Labor			-	492,845
U.S. Department of Health and Human Services:				
Passed-through the Virginia Department of Social Services:				
Temporary Assistance for Needy Families	93.558	BEN-19-024-12	-	155,973
Temporary Assistance for Needy Families	93.558	BEN-19-113-13	-	103,554
Temporary Assistance for Needy Families	93.558	BEN-22-099-07	-	156,552
Total Temporary Assistance for Needy Families/ U.S. Department of Health and Human Services			-	416,079
Total expenditures of federal awards			\$ -	\$ 929,346

See notes to schedule of expenditures of federal awards.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Melwood Horticultural Training Center, Inc. and Affiliates, under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Melwood Horticultural Training Center, Inc. and Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Melwood Horticultural Training Center, Inc. and Affiliates.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

Melwood Horticultural Training Center, Inc. and Affiliates has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Melwood Horticultural Training Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of Melwood Horticultural Training Center, Inc. and Affiliates (the Center), which comprise the Center's consolidated balance sheet as of June 30, 2024, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated March 10, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Gaithersburg, Maryland

March 10, 2025

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

Board of Directors
Melwood Horticultural Training Center, Inc.

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Melwood Horticultural Training Center, Inc. and Affiliates' (the Center), compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2024. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2024.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Center's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Center's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM VS LLP

Gaithersburg, Maryland
March 10, 2025

Melwood Horticultural Training Center, Inc. and Affiliates

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2024**

Section I—Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None Reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over the major federal program:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None Reported

Type of auditor’s report issued on compliance for the major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?

_____ Yes X No

Identification of the major federal program:

Assistance Listing Number(s)

Name of Federal Program or Cluster

93.558

Temporary Assistance for Needy Families

Dollar threshold used to distinguish between type A and type B federal programs:

\$ 750,000

Auditee qualified as low-risk auditee?

_____ Yes X No

Section II—Financial Statement Findings

No matters were reported.

Section III—Federal Award Findings and Questioned Costs

No matters were reported.