

**Melwood, Inc. and Affiliates  
(Formerly, Melwood Horticultural  
Training Center, Inc. and Affiliates)**

Consolidated Financial Report  
June 30, 2025

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## Independent Auditor's Report

Board of Directors  
Melwood, Inc.

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the consolidated financial statements of Melwood, Inc. and Affiliates (formerly, Melwood Horticultural Training Center, Inc. and Affiliates) (the Organization), which comprise the consolidated balance sheets as of June 30, 2025 and 2024, 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 Organization as of June 30, 2025 and 2024, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Organization 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 Organization'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 Organization'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 Organization'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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating balance sheet, consolidating statement of activities, and the 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 January 14, 2026, on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

*RSM US LLP*

Orlando, Florida  
January 14, 2026

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

**Consolidated Balance Sheets**  
**June 30, 2025 and 2024**  
**(In Thousands)**

	2025	2024
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,860	\$ 9,034
Receivables, net of allowance for credit losses of \$329 in 2025 and 2024	26,431	26,085
Inventory	186	259
Prepaid expenses	546	867
<b>Total current assets</b>	<b>38,023</b>	<b>36,245</b>
Property and equipment, net	26,524	21,508
Investments	19,314	17,877
Other assets	1,230	1,286
<b>Total assets</b>	<b>\$ 85,091</b>	<b>\$ 76,916</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,696	\$ 9,247
Accrued payroll and withheld taxes	7,718	6,940
Notes payable, current portion	-	77
Deferred revenue	100	140
<b>Total current liabilities</b>	<b>18,514</b>	<b>16,404</b>
Equity method investment	319	227
Other liabilities	126	72
<b>Total liabilities</b>	<b>18,959</b>	<b>16,703</b>
Contingencies (Note 9)		
Net assets:		
Without donor restrictions:		
Undesignated	45,441	45,405
Board designated	14,526	13,351
<b>Total net assets without donor restrictions</b>	<b>59,967</b>	<b>58,756</b>
With donor restrictions	6,165	1,457
<b>Total net assets</b>	<b>66,132</b>	<b>60,213</b>
<b>Total liabilities and net assets</b>	<b>\$ 85,091</b>	<b>\$ 76,916</b>

See notes to consolidated financial statements.

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

**Consolidated Statements of Activities**  
**Years Ended June 30, 2025 and 2024**  
**(In Thousands)**

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Public support:						
Monetary contributions	\$ 448	\$ 94	\$ 542	\$ 428	\$ 108	\$ 536
Nonfinancial contributions	2,213	4,600	6,813	2,406	-	2,406
Government and private grants	1,830	-	1,830	1,998	-	1,998
Contract revenue	112,795	-	112,795	104,840	-	104,840
Service fees	11,361	-	11,361	9,287	-	9,287
Other	266	-	266	174	-	174
Net assets released from restrictions	95	(95)	-	64	(64)	-
<b>Total public support</b>	<b>129,008</b>	<b>4,599</b>	<b>133,607</b>	<b>119,197</b>	<b>44</b>	<b>119,241</b>
Investment income, net	1,335	109	1,444	1,254	135	1,389
<b>Total support and revenue</b>	<b>130,343</b>	<b>4,708</b>	<b>135,051</b>	<b>120,451</b>	<b>179</b>	<b>120,630</b>
Expenses:						
Program expenses:						
Employment services	90,225	-	90,225	81,315	-	81,315
Community services	15,475	-	15,475	15,754	-	15,754
Therapeutic services	2,257	-	2,257	2,023	-	2,023
<b>Total program expenses</b>	<b>107,957</b>	<b>-</b>	<b>107,957</b>	<b>99,092</b>	<b>-</b>	<b>99,092</b>
Supporting services:						
Management and general	18,829	-	18,829	16,515	-	16,515
Fundraising	2,282	-	2,282	2,697	-	2,697
<b>Total supporting services</b>	<b>21,111</b>	<b>-</b>	<b>21,111</b>	<b>19,212</b>	<b>-</b>	<b>19,212</b>
<b>Total expenses</b>	<b>129,068</b>	<b>-</b>	<b>129,068</b>	<b>118,304</b>	<b>-</b>	<b>118,304</b>
<b>Change in net assets before other income</b>	<b>1,275</b>	<b>4,708</b>	<b>5,983</b>	<b>2,147</b>	<b>179</b>	<b>2,326</b>
Other income (loss):						
(Loss) gain from equity method investment	(92)	-	(92)	20	-	20
Gain on asset disposition	28	-	28	41	-	41
<b>Total other (loss) income</b>	<b>(64)</b>	<b>-</b>	<b>(64)</b>	<b>61</b>	<b>-</b>	<b>61</b>
<b>Change in net assets</b>	<b>1,211</b>	<b>4,708</b>	<b>5,919</b>	<b>2,208</b>	<b>179</b>	<b>2,387</b>
Net assets:						
Beginning	58,756	1,457	60,213	56,548	1,278	57,826
Ending	\$ 59,967	\$ 6,165	\$ 66,132	\$ 58,756	\$ 1,457	\$ 60,213

See notes to consolidated financial statements.

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2025**  
**(In Thousands)**

	Program Expenses				Supporting Services			
	Employment Services	Community Services	Therapeutic Services	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	Total
Wages and salaries	\$ 47,211	\$ 10,094	\$ 911	\$ 58,216	\$ 7,912	\$ 847	\$ 8,759	\$ 66,975
Employee benefits	13,347	2,414	221	15,982	1,661	182	1,843	17,825
<b>Total salaries and related expenses</b>	<b>60,558</b>	<b>12,508</b>	<b>1,132</b>	<b>74,198</b>	<b>9,573</b>	<b>1,029</b>	<b>10,602</b>	<b>84,800</b>
Professional and consulting fees	331	1,228	170	1,729	2,646	240	2,886	4,615
Supplies and materials	5,676	237	507	6,420	292	64	356	6,776
Buildings and occupancy	316	143	64	523	1,495	27	1,522	2,045
Equipment, maintenance and rental	1,983	367	40	2,390	2,709	18	2,727	5,117
Support and contract services	20,189	379	19	20,587	773	793	1,566	22,153
Travel and entertainment	137	164	154	455	107	9	116	571
Miscellaneous expenses	190	232	53	475	214	92	306	781
Interest expense and bank fees	-	2	7	9	51	4	55	64
Depreciation expense	845	215	111	1,171	969	6	975	2,146
<b>Total expenses</b>	<b>\$ 90,225</b>	<b>\$ 15,475</b>	<b>\$ 2,257</b>	<b>\$ 107,957</b>	<b>\$ 18,829</b>	<b>\$ 2,282</b>	<b>\$ 21,111</b>	<b>\$ 129,068</b>

See notes to consolidated financial statements.

**Melwood, Inc. and Affiliates**  
**(Formerly, 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	
<b>Total salaries and related expenses</b>	<b>54,180</b>	<b>12,412</b>	<b>962</b>	<b>67,554</b>	<b>8,510</b>	<b>988</b>	<b>9,498</b>	<b>77,052</b>	
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	
<b>Total expenses</b>	<b>\$ 81,315</b>	<b>\$ 15,754</b>	<b>\$ 2,023</b>	<b>\$ 99,092</b>	<b>\$ 16,515</b>	<b>\$ 2,697</b>	<b>\$ 19,212</b>	<b>\$ 118,304</b>	

See notes to consolidated financial statements.

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2025 and 2024**  
**(In Thousands)**

	2025	2024
Cash flows from operating activities:		
Change in net assets	\$ 5,919	\$ 2,387
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,146	1,864
Amortization of right-of-use lease asset	-	75
Realized and unrealized gains on investments, net	(860)	(1,031)
Contributed property and equipment	(4,723)	-
Loss (gain) from equity method investment	92	(20)
Gain on sale/disposal of property and equipment	(28)	(41)
Contributions restricted for long-term purposes	(94)	(108)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(346)	(21)
Inventory	73	(66)
Prepaid expenses	321	(177)
Other assets	56	(158)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,449	1,247
Accrued payroll and withheld taxes	778	759
Right-of-use lease liability—operating	-	(76)
Deferred revenue	(40)	92
Other liabilities	54	17
<b>Net cash provided by operating activities</b>	<b>4,797</b>	<b>4,743</b>
Cash flows from investing activities:		
Purchases of property and equipment	(2,893)	(4,217)
Proceeds from sale of property and equipment	482	44
Purchases of investments	(961)	(6,629)
Proceeds from sale of investments	384	3,163
<b>Net cash used in investing activities</b>	<b>(2,988)</b>	<b>(7,639)</b>
Cash flows from financing activities:		
Principal payments on notes payable	(77)	(294)
Collection of contributions restricted for long-term purposes	94	108
<b>Net cash provided by (used in) financing activities</b>	<b>17</b>	<b>(186)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,826</b>	<b>(3,082)</b>
Cash and cash equivalents:		
Beginning	9,034	12,116
Ending	\$ 10,860	\$ 9,034
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 61	\$ 82
Supplemental schedule of noncash investing activities:		
Acquisition of property and equipment through contribution	\$ 4,723	\$ -

See notes to consolidated financial statements.

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

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

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**Note 1. Nature of Activities and Significant Accounting Policies**

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

In the spring of 2024, the Organization 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: MI, which will act as a new parent entity that houses shared services and MCS that will house the Organization's program services. These entities began operations on January 1, 2025, when shared services employees were moved to MI and program services employees were moved to MCS.

MI is a nonprofit organization to serve as a supporting organization and provides services to MHTC, MCS and MCDC.

MHTC is a nonprofit organization that 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.

MCS is a nonprofit organization for the purpose of advocating for and empowering people with disabilities by expanding opportunities to work and thrive in the community and to perform such other educational and charitable activities as may be necessary and appropriate in order to accomplish the foregoing purposes.

MHTC established MVS, a Maryland limited liability company 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. 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, 2025 and 2024.

MHTC established MCDC, a nonprofit organization 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, 2025, MCDC has no activity.

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

**Principles of consolidation:** The consolidated financial statements include the accounts of Melwood, Inc. and its subsidiaries through controlled interests. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

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

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

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

The Organization 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 the 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 Organization 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 Organization 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, 2025, June 30, 2024 and June 30, 2023, are as follows:

	2025	2024	2023
Billed accounts receivable	\$ 26,760	\$ 26,363	\$ 25,256
Contract assets	-	51	1,137
	26,760	26,414	26,393
Less allowance for credit losses	(329)	(329)	(329)
	<u>\$ 26,431</u>	<u>\$ 26,085</u>	<u>\$ 26,064</u>
Contract liabilities	<u>\$ 100</u>	<u>\$ 140</u>	<u>\$ 48</u>

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

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

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

**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 is capitalized at cost when purchased or at fair value at the date of gift, if contributed. Depreciation is computed on the straight-line method of accounting over the estimated useful lives of the assets. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts, and any gains or losses from disposition are credited or charged to income. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The Organization capitalizes all asset purchases in excess of \$1.5.

Donated property and equipment are recorded at their fair value at the date of receipt. The Organization 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, 2025 and 2024.

**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, net in the consolidated statements of activities.

The cost method of accounting is used for recording investments that lack readily determinable fair values and when the Organization exerts little or no influence over the investment that it owns, which is typically represented as owning less than 20% of the investee company. This type of investment is recorded at historical cost, less any impairments, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. As of June 30, 2025 and 2024, the carrying value of investments recorded at cost was \$900 and is included in other assets in the consolidated balance sheets.

**Investments in joint ventures:** The Organization holds a 75% investment in a joint venture, Melwood & Eggleston Enterprises LLC. The Organization accounts for its investment using the equity method of accounting due to substantive participating rights held by the limited partner. The Organization'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.

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

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

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

Condensed financial information as of and for the years ended June 30, 2025 and 2024, is shown below:

	2025	2024
Total assets	\$ 24	\$ 55
Total liabilities	\$ 449	\$ 358
Total revenues	\$ 1,488	\$ 2,300
Total expenses	\$ 1,610	\$ 2,274

**Revenue:** The Organization recognizes revenue on exchange transactions under Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, (Topic 606). The Organization 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 Organization provides janitorial, maintenance and professional training services to customers located in the Washington, D.C. metro area. The Organization enters into agreements with customers that create enforceable rights and obligations, and for which it is probable that the Organization will collect the consideration to which it will be entitled as services transfer to the customer. It is customary practice for the Organization 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 Organization does not assess whether a contract contains a significant financing component if the Organization 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 Organization provides services to government entities and a continuation of such contract beyond the specified date is contingent upon the availability of appropriated funds.

The Organization generally recognizes revenue over the performance period as a customer receives the benefits of its service. In most cases, the Organization views its performance obligations as promises to transfer a series of distinct services to its customers 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 Organization allocates variable fees from time and material type contracts to the distinct periods of service to which they relate. The Organization 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, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

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

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

The timing of revenue recognition may not align with the right to invoice the customer. The Organization records receivables 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 net assets without donor restrictions, or net assets 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:** Contributed items consist of property and vehicles from private donors. No property or vehicles received during the period were restricted for use. It is the Organization's policy to sell all contributed 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 Organization in various ongoing programs. The Organization estimated the fair value of property based on estimates from third-party appraisals and the Organization uses the property in various ongoing programs.

Contributions of nonfinancial assets included in the consolidated statements of activities are as follows:

	2025	2024
Contributed property and equipment	\$ 4,723	\$ -
Contributed vehicles	2,090	2,406
	<u>\$ 6,813</u>	<u>\$ 2,406</u>

**Advertising:** Advertising costs are expensed as incurred. For the years ended June 30, 2025 and 2024, the Organization incurred advertising costs of \$589 and \$907, respectively.

**Income taxes:** MI, MHTC, MCS, MVS and MCDC are 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. Accordingly, no provision for federal income taxes has been recorded in the accompanying consolidated financial statements.

**Melwood, Inc. and Affiliates**  
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**Notes to Consolidated Financial Statements**  
**(In Thousands)**

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**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 accounting principles generally accepted in the United States of America (U.S. GAAP) 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Leases:** The Organization 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 Organization 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 Organization 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 represents the Organization's right to use an underlying asset during the lease term and ROU lease liability-operating represents the Organization'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 was no ROU lease asset-operating or ROU lease liability-operating at June 30, 2025 and 2024.

**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

**Melwood, Inc. and Affiliates**  
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**Notes to Consolidated Financial Statements**  
**(In Thousands)**

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

In determining the appropriate levels, the Organization 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 issued accounting pronouncements:** In July 2025, the FASB issued ASU 2025-05, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*. The ASU introduces a practical expedient and, for entities other than public business entities, an accounting policy election to simplify the application of Topic 326, *Financial Instruments—Credit Losses*, to current accounts receivable and current contract assets arising from revenue transactions accounted for under Topic 606, *Revenue from Contracts with Customers*.

ASU 2025-05 is effective prospectively and is effective for all entities for annual reporting periods beginning after December 15, 2025. Early adoption is permitted in which financial statements have not yet been issued or made available for issuance. The adoption of ASU 2025-05 is not expected to have a significant impact on the Organization's consolidated financial statements. The Organization is currently evaluating the impact of this new guidance on its consolidated financial statements.

**Subsequent events:** The Organization has evaluated subsequent events through January 14, 2026, 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, 2025, and depreciation expense for the year ended June 30, 2025, are as follows:

Asset Category	Estimated Useful Lives (Years)	Cost	Accumulated Depreciation	Net Book Value	Depreciation
Buildings and improvements	6-40	\$ 32,428	\$ 16,154	\$ 16,274	\$ 958
Transportation equipment	3-7	7,755	7,243	512	507
Training equipment and furnishings	3-10	6,201	4,998	1,203	597
Office equipment	3-7	1,943	1,462	481	84
Land	–	7,561	-	7,561	-
Work in progress—construction	–	493	-	493	-
Residential equipment	3-10	6	6	-	-
		\$ 56,387	\$ 29,863	\$ 26,524	\$ 2,146

**Melwood, Inc. and Affiliates**  
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**Notes to Consolidated Financial Statements**  
**(In Thousands)**

**Note 2. Property and Equipment (Continued)**

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>

**Note 3. Investments**

Investments at June 30, 2025 and 2024, consist of the following:

	2025	2024
Equity securities, including exchange traded funds and mutual funds	\$ 9,342	\$ 9,362
Fixed income securities and mutual funds	9,600	8,163
Cash and cash equivalents	372	352
	<u>\$ 19,314</u>	<u>\$ 17,877</u>

Investments at June 30, 2025 and 2024, represent the following:

	2025	2024
Board designated funds	\$ 14,526	\$ 13,351
Undesignated funds	3,195	3,069
Donor-restricted endowment funds	1,380	1,346
Donor-restricted endowment funds—Hathway	213	111
	<u>\$ 19,314</u>	<u>\$ 17,877</u>

Net Investment income for the years ended June 30, 2025 and 2024, is comprised as follows:

	2025	2024
Interest and dividend income	\$ 584	\$ 358
Realized and unrealized gains on investments, net	860	1,031
	<u>\$ 1,444</u>	<u>\$ 1,389</u>

**Melwood, Inc. and Affiliates**  
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**Notes to Consolidated Financial Statements**  
**(In Thousands)**

**Note 4. Line of Credit**

The Organization maintains a \$15,000 revolving line of credit with a bank, bearing interest at the Secured Overnight Financing Rate, adjusted monthly, plus 1.39% (8.89% at June 30, 2025). Interest on the line of credit is payable monthly and expires in May 2027. The line of credit is collateralized by all assets of the Organization. There was no outstanding balance on the line of credit at June 30, 2025 and 2024.

**Note 5. 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, 2025 and 2024:

	2025			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	\$ 2,938	\$ -	\$ 2,938	\$ -
Corporate bonds	2,532	-	2,532	-
Mutual funds	4,130	4,130	-	-
Cash and cash equivalents:				
Institutional money market	372	372	-	-
Equity securities:				
Common stocks	6,250	6,250	-	-
Mutual funds	1,785	1,785	-	-
Exchange-traded funds	1,307	1,307	-	-
	<u>\$ 19,314</u>	<u>\$ 13,844</u>	<u>\$ 5,470</u>	<u>\$ -</u>
	2024			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	\$ 2,259	\$ -	\$ 2,259	\$ -
Corporate bonds	2,493	-	2,493	-
Mutual funds	3,411	3,411	-	-
Cash and cash equivalents:				
Institutional money market	352	352	-	-
Equity securities:				
Common stocks	5,568	5,568	-	-
Mutual funds	2,274	2,274	-	-
Exchange-traded funds	1,520	1,520	-	-
	<u>\$ 17,877</u>	<u>\$ 13,125</u>	<u>\$ 4,752</u>	<u>\$ -</u>

The equity securities and the fixed income mutual funds of the Organization are publicly traded and are considered Level 1 items. The Organization'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, Inc. and Affiliates**  
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**Notes to Consolidated Financial Statements**  
**(In Thousands)**

**Note 6. 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 and contributed property restricted for use and time. Also, the Board of Directors of the Organization 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 of Directors has determined that the original gift value for donor-restricted funds was \$1,144 and \$1,050 (100% perpetual duration) as of June 30, 2025 and 2024, respectively. As a result of this interpretation, the Organization classifies the original gift amount of \$1,144 and \$1,050 as of June 30, 2025 and 2024, 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, 2024	Investment Income or Contributions	Released	Balance June 30, 2025
Contributed property restricted for use and time	\$ -	\$ 4,600	\$ (28)	\$ 4,572
Endowment funds—held in perpetuity	1,050	94	-	1,144
Amounts subject to UPMIFA policy	407	109	(67)	449
	<u>\$ 1,457</u>	<u>\$ 4,803</u>	<u>\$ (95)</u>	<u>\$ 6,165</u>

	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>

In accordance with UPMIFA, the Organization 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 Organization 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 Organization
- The investment policies of the Organization

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

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**Note 6. Net Assets (Continued)**

**Return objectives and risk parameters:** The Organization 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 the Organization 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, The Organization 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). The Organization targets a diversified asset allocation base with the following parameters:

	Minimum	Current Exposure	Maximum
Equity securities and cash	40%	50%	60%
Fixed income	30%	50%	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, the Organization 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, 2025 and 2024, consisted of \$14,526 and \$13,351, respectively, designated by the Organization'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, 2025, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated funds	\$ 14,526	\$ -	\$ 14,526
Donor-restricted endowment funds	-	1,593	1,593
Total funds	<u>\$ 14,526</u>	<u>\$ 1,593</u>	<u>\$ 16,119</u>

**Melwood, Inc. and Affiliates**  
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**Notes to Consolidated Financial Statements**  
**(In Thousands)**

**Note 6. Net Assets (Continued)**

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	<u>\$ 13,351</u>	<u>\$ 1,457</u>	<u>\$ 14,808</u>

Changes in investment net assets for the year ended June 30, 2025, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment net assets, beginning of year	\$ 13,351	\$ 1,457	\$ 14,808
Contributions	-	94	94
Investment income, net	1,108	109	1,217
Other changes:			
Appropriations	67	(67)	-
Investment net assets, end of year	<u>\$ 14,526</u>	<u>\$ 1,593</u>	<u>\$ 16,119</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>

**Note 7. Retirement and Other Compensation Plans**

The Organization 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 Organization. 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 Organization on or after January 1, 2005, are subject to a three-year graded vesting schedule; all other employees are fully vested in the Organization's contributions immediately upon receipt. For the years ended June 30, 2025 and 2024, the Organization contributed \$592 and \$436, respectively, to the plan.

**Melwood, Inc. and Affiliates**  
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**Notes to Consolidated Financial Statements**  
**(In Thousands)**

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**Note 7. Retirement and Other Compensation Plans (Continued)**

The Organization 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 (SCRCP).

The Organization has the SCRCP 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 SCRCP on a quarterly basis.

The Organization has a contingent executive severance obligation for the President/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 Organization 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 Organization's discretion.

The Organization has established two deferred compensation plans under Section 457(b) and Section 457(f) of the IRC for the benefit of the President/Chief Executive Officer and all C-suite members and vice presidents. Eligible contributions made the 457(b) plan vest immediately, but contributions made to the 457(f) plan vest on June 30, 2025. Assets in the plans at June 30, 2025 and 2024, were \$126 and \$72, respectively, and are included in other assets on the consolidated balance sheets. Accrued liabilities related to the plans at June 30, 2025 and 2024, were \$126 and \$72, respectively, and are included in other liabilities in the consolidated balance sheets.

**Note 8. Customer Concentrations**

During the years ended June 30, 2025 and 2024, 84% and 87%, respectively, of the Organization'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 Organization.

**Note 9. Contingencies**

**Grants:** The Organization 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. The Organization relies on the continued receipt of grants and contributions to provide ongoing programs.

**Letters of credit:** The Organization 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 Organization'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 Organization is self-insured. These letters of credit continue until final termination of the prior workers' compensation and until continued unemployment claims are finalized.

**Melwood, Inc. and Affiliates**  
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**Notes to Consolidated Financial Statements**  
**(In Thousands)**

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**Note 9. Contingencies (Continued)**

**Claims and litigation:** In the ordinary course of business, the Organization 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 Organization.

**Self-insured agreement:** The Organization 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 \$243 and \$308 as of June 30, 2025 and 2024, respectively.

The Organization maintains a self-insured medical health plan model and a high-deductible workers' compensation plan, whereby the Organization covers the cost of medical claims its employees incur. The Organization 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 based on type of coverage. The Organization's liabilities for the self-insured medical health plan and workers' compensation plan are as follows:

	2025	2024
Self-insured medical health plan	\$ 589	\$ 1,066
Workers' compensation plan	243	308
	<u>\$ 832</u>	<u>\$ 1,374</u>

**Note 10. Liquidity**

The Organization 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, 2025 and 2024, the following financial assets are available to meet annual operating needs of the 2026 and 2025 fiscal years:

	2025	2024
Cash and cash equivalents	\$ 10,860	\$ 9,034
Receivables, net	26,431	26,085
Undesignated investments	3,195	3,069
Anticipated withdrawal on endowment in 2026 and 2025, respectively	95	64
Total financial assets available for general expenditure within one year	<u>\$ 40,581</u>	<u>\$ 38,252</u>

The Organization 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 Organization's line of credit.

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

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**Note 10. 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 the Organization'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 6, the Board of Directors has designated net assets in the amount of \$14,526 for long-term investment. As such, these funds are not reflected as available for general expenditure over the next 12 months. However, the Board of Directors may undesignate all or a portion of these funds on a current basis at its discretion.

**Melwood, Inc. and Affiliates**  
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**Consolidating Balance Sheet**  
**June 30, 2025**  
**(In Thousands)**

	Melwood, Inc.	Melwood Horticultural Training Center, Inc.	Melwood Community Services, Inc.	Eliminations	Consolidated
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 2,266	\$ 8,241	\$ 353	\$ -	\$ 10,860
Receivables, net	110	25,787	534	-	26,431
Inventory	186	-	-	-	186
Prepaid expenses	462	48	36	-	546
Due from related party	2,513	-	2,879	(5,392)	-
<b>Total current assets</b>	<b>5,537</b>	<b>34,076</b>	<b>3,802</b>	<b>(5,392)</b>	<b>38,023</b>
Property and equipment, net	5,011	21,513	-	-	26,524
Investments	16,721	2,593	-	-	19,314
Other assets	-	1,230	-	-	1,230
<b>Total assets</b>	<b>\$ 27,269</b>	<b>\$ 59,412</b>	<b>\$ 3,802</b>	<b>\$ (5,392)</b>	<b>\$ 85,091</b>
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 2,600	\$ 6,898	\$ 1,198	\$ -	\$ 10,696
Accrued payroll and withheld taxes	1,126	5,303	1,289	-	7,718
Notes payable, current portion	-	-	-	-	-
Deferred revenue	-	-	100	-	100
Due to related party	-	5,392	-	(5,392)	-
<b>Total current liabilities</b>	<b>3,726</b>	<b>17,593</b>	<b>2,587</b>	<b>(5,392)</b>	<b>18,514</b>
Equity method investment	-	319	-	-	319
Other liabilities	-	126	-	-	126
<b>Total liabilities</b>	<b>3,726</b>	<b>18,038</b>	<b>2,587</b>	<b>(5,392)</b>	<b>18,959</b>
Net assets:					
Without donor restrictions:					
Undesignated	2,854	41,372	1,215	-	45,441
Board designated	14,524	2	-	-	14,526
<b>Total net assets without donor restrictions</b>	<b>17,378</b>	<b>41,374</b>	<b>1,215</b>	<b>-</b>	<b>59,967</b>
With donor restrictions	6,165	-	-	-	6,165
<b>Total net assets</b>	<b>23,543</b>	<b>41,374</b>	<b>1,215</b>	<b>-</b>	<b>66,132</b>
<b>Total liabilities and net assets</b>	<b>\$ 27,269</b>	<b>\$ 59,412</b>	<b>\$ 3,802</b>	<b>\$ (5,392)</b>	<b>\$ 85,091</b>

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

**Consolidating Statement of Activities**  
**Year Ended June 30, 2025**  
**(In Thousands)**

	Melwood, Inc.			Melwood Horticultural Training Center, Inc.			Melwood Community Services, Inc.				Consolidated		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Eliminations	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:													
Public support:													
Monetary contributions	\$ 4,352	\$ 94	\$ 4,446	\$ 184	\$ -	\$ 184	\$ 4,017	\$ -	\$ 4,017	\$ (8,105)	\$ 448	\$ 94	\$ 542
Nonfinancial contributions	1,070	4,600	5,670	1,143	-	1,143	-	-	-	-	2,213	4,600	6,813
Government and private grants	55	-	55	1,449	-	1,449	326	-	326	-	1,830	-	1,830
Contract revenue	-	-	-	112,795	-	112,795	-	-	-	-	112,795	-	112,795
Service fees	(20)	-	(20)	11,336	-	11,336	45	-	45	-	11,361	-	11,361
Other	7,621	-	7,621	630	-	630	4,768	-	4,768	(12,753)	266	-	266
Net assets released from restrictions	95	(95)	-	-	-	-	-	-	-	-	95	(95)	-
<b>Total public support</b>	<b>13,173</b>	<b>4,599</b>	<b>17,772</b>	<b>127,537</b>	<b>-</b>	<b>127,537</b>	<b>9,156</b>	<b>-</b>	<b>9,156</b>	<b>(20,858)</b>	<b>129,008</b>	<b>4,599</b>	<b>133,607</b>
Investment income, net	365	69	434	970	40	1,010	-	-	-	-	1,335	109	1,444
<b>Total support and revenue</b>	<b>13,538</b>	<b>4,668</b>	<b>18,206</b>	<b>128,507</b>	<b>40</b>	<b>128,547</b>	<b>9,156</b>	<b>-</b>	<b>9,156</b>	<b>(20,858)</b>	<b>130,343</b>	<b>4,708</b>	<b>135,051</b>
Expenses:													
Program expenses:													
Employment services	746	-	746	104,686	-	104,686	-	-	-	(15,207)	90,225	-	90,225
Community services	4,561	-	4,561	8,707	-	8,707	7,858	-	7,858	(5,651)	15,475	-	15,475
Therapeutic services	-	-	-	1,394	-	1,394	863	-	863	-	2,257	-	2,257
<b>Total program expenses</b>	<b>5,307</b>	<b>-</b>	<b>5,307</b>	<b>114,787</b>	<b>-</b>	<b>114,787</b>	<b>8,721</b>	<b>-</b>	<b>8,721</b>	<b>(20,858)</b>	<b>107,957</b>	<b>-</b>	<b>107,957</b>
Supporting services:													
Management and general	6,597	-	6,597	12,121	-	12,121	111	-	111	-	18,829	-	18,829
Fundraising	1,125	-	1,125	1,157	-	1,157	-	-	-	-	2,282	-	2,282
<b>Total supporting services</b>	<b>7,722</b>	<b>-</b>	<b>7,722</b>	<b>13,278</b>	<b>-</b>	<b>13,278</b>	<b>111</b>	<b>-</b>	<b>111</b>	<b>-</b>	<b>21,111</b>	<b>-</b>	<b>21,111</b>
<b>Total expenses</b>	<b>13,029</b>	<b>-</b>	<b>13,029</b>	<b>128,065</b>	<b>-</b>	<b>128,065</b>	<b>8,832</b>	<b>-</b>	<b>8,832</b>	<b>(20,858)</b>	<b>129,068</b>	<b>-</b>	<b>129,068</b>
<b>Change in net assets before other income</b>	<b>509</b>	<b>4,668</b>	<b>5,177</b>	<b>442</b>	<b>40</b>	<b>482</b>	<b>324</b>	<b>-</b>	<b>324</b>	<b>-</b>	<b>1,275</b>	<b>4,708</b>	<b>5,983</b>
Other income (loss):													
Loss from equity method investment	-	-	-	(92)	-	(92)	-	-	-	-	(92)	-	(92)
Gain on asset disposition	-	-	-	28	-	28	-	-	-	-	28	-	28
<b>Total other loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(64)</b>	<b>-</b>	<b>(64)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(64)</b>	<b>-</b>	<b>(64)</b>
<b>Change in net assets</b>	<b>509</b>	<b>4,668</b>	<b>5,177</b>	<b>378</b>	<b>40</b>	<b>418</b>	<b>324</b>	<b>-</b>	<b>324</b>	<b>-</b>	<b>1,211</b>	<b>4,708</b>	<b>5,919</b>
Net assets:													
Beginning	-	-	-	58,756	1,457	60,213	-	-	-	-	58,756	1,457	60,213
Transfer of net assets	16,869	1,497	18,366	(17,760)	(1,497)	(19,257)	891	-	891	-	-	-	-
Ending	\$ 17,378	\$ 6,165	\$ 23,543	\$ 41,374	\$ -	\$ 41,374	\$ 1,215	\$ -	\$ 1,215	\$ -	\$ 59,967	\$ 6,165	\$ 66,132

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2025**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Expenditures
<b>U.S. Department of Housing and Urban Development</b>				
Passed-through Arlington County, Virginia:				
CDBG—Entitlement/Special Purpose Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	None	\$ -	\$ 14,665
<b>Total CDBG—Entitlement/Special Purpose Grants Cluster/</b>				
<b>U.S. Department of Housing and Urban Development</b>			-	14,665
<b>U.S. Department of Labor</b>				
Direct—U.S. Department of Labor:				
Occupational Safety and Health Susan Harwood Training Grants	17.502		-	42,380
Occupational Safety and Health Susan Harwood Training Grants	17.502		-	84,203
<b>Total Occupational Safety and Health Susan Harwood Training Grants</b>			-	126,583
Direct—U.S. Department of Labor				
Community Project Funding/Congressionally Directed Spending	17.289		-	90,000
Community Project Funding/Congressionally Directed Spending	17.289		-	95,845
Community Project Funding/Congressionally Directed Spending	17.289		-	170,958
<b>Total Community Project Funding/Congressionally Directed Spending</b>			-	356,803
<b>Total U.S. Department of Labor</b>			-	483,386
<b>U.S. Department of Education</b>				
Direct—U.S. Department of Education:				
Disability Innovation Fund (DIF)	84.421F		401,228	712,607
<b>Total Disability Innovation Fund (DIF)/</b>				
<b>U.S. Department of Education</b>			401,228	712,607
<b>U.S. Department of Health and Human Services</b>				
Passed-through the Virginia Department of Social Services:				
Temporary Assistance for Needy Families	93.558	BEN-24-086-02	-	95,655
<b>Total Temporary Assistance for Needy Families/</b>				
<b>U.S. Department of Health and Human Services</b>			-	95,655
<b>Total expenditures of federal awards</b>			<b>\$ 401,228</b>	<b>\$ 1,306,313</b>

See notes to schedule of expenditures of federal awards.

**Melwood, Inc. and Affiliates**  
**(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

**Notes to Schedule of Expenditures of Federal Awards**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Melwood, Inc. and Affiliates, under programs of the federal government for the year ended June 30, 2025. 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, Inc. and Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Melwood, 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, 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, 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, Inc. and Affiliates (formerly, Melwood Horticultural Training Center, Inc. and Affiliates) (the Organization), which comprise the Organization's consolidated balance sheet as of June 30, 2025, 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 January 14, 2026.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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*

Orlando, Florida  
January 14, 2026

**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, Inc.

**Report on Compliance for the Major Federal Program**

***Opinion on the Major Federal Program***

We have audited Melwood, Inc. and Affiliates' (formerly, Melwood Horticultural Training Center, Inc. and Affiliates) (the Organization), 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 Organization's major federal program for the year ended June 30, 2025. The Organization'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 Organization 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, 2025.

***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 Organization 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 Organization'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 Organization'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 Organization'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 Organization'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 Organization'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 Organization'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 Organization'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 US LLP*

Orlando, Florida  
January 14, 2026

**Melwood, Inc. and Affiliates  
(Formerly, Melwood Horticultural Training Center, Inc. and Affiliates)**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2025**

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**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

84.421F

Disability Innovation Fund (DIF)

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.