NW WORKS, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2023

PBMares

ASSURANCE, TAX & ADVISORY SERVICES

NW WORKS, INC. AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
NW Works, Inc. and Affiliate

Opinion

We have audited the consolidated financial statements of NW Works, Inc. and Affiliate (the Organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

PBMares, LLP

Warrenton, Virginia
November 20, 2023

CONSOLIDATED FINANCIAL STATEMENTS

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 657,635**	$ 1,029,846
Certificates of deposit	**500,000**	-
Contract receivables	**425,318**	408,741
Contribution and grant receivables	**49,895**	-
Accrued revenue	**38,219**	85,797
Prepaid expenses and other current assets	**19,885**	27,991
Total current assets	**1,690,952**	1,552,375
Property and equipment, net	**2,549,855**	2,568,399
Investments	**2,490,450**	2,565,034
Right of use asset	**20,073**	-
Land held for sale	**-**	590,349
Total assets	**$ 6,751,330**	$ 7,276,157
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term debt, net	**$ 13,480**	$ 28,331
Accounts payable	**64,447**	65,660
Accrued payroll and related liabilities	**73,284**	199,780
Accrued compensated absences	**104,376**	116,457
Other accrued expenses	**6,628**	13,603
Deferred revenue and refundable advances	**-**	47,137
Short-term lease liabilities	**13,536**	-
Total current liabilities	**275,751**	470,968
Long-term debt, net	**159,953**	160,050
Liabilities held for sale	**-**	1,160,000
Long-term lease liabilities	**6,837**	-
Total liabilities	**442,541**	1,791,018
Net Assets		
Without donor restrictions	**6,288,671**	5,485,139
With donor restrictions	**20,118**	-
Total net assets	**6,308,789**	5,485,139
Total liabilities and net assets	**$ 6,751,330**	$ 7,276,157

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTVITIES
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenues, and Gains			
Public support:			
Group day support	$ 699,376	$ -	$ 699,376
Supported employment	313,947	-	313,947
Project SEARCH	88,526	-	88,526
Community engagement	67,114	-	67,114
Situational assessment	1,912	-	1,912
Long-term employment services	136,808	-	136,808
Temporary Assistance for Needy Families	113,196	-	113,196
Workplace assistance	41,672	-	41,672
Special events, net	39,817	-	39,817
Contributions and grants	373,081	20,118	393,199
Contributed nonfinancial assets	14,555	-	14,555
Net assets released from restrictions	-	-	-
Total public support	1,890,004	20,118	1,910,122
Revenues and gains:			
Work contracts	3,102,485	-	3,102,485
Investment return	132,696	-	132,696
Gain (loss) on disposal of property and equipment, net	1,103,310	-	1,103,310
Other income	837	-	837
Total revenues and gains	4,339,328	-	4,339,328
Total public support, revenues and gains	6,229,332	20,118	6,249,450
Expenses			
Program	3,976,173	-	3,976,173
Management and general	1,362,632	-	1,362,632
Fundraising	86,995	-	86,995
Total expenses	5,425,800	-	5,425,800
Change in net assets	803,532	20,118	823,650
Net Assets, beginning of year	5,485,139	-	5,485,139
Net Assets, end of year	$ 6,288,671	$ 20,118	$ 6,308,789

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTVITIES
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenues, and Gains			
Public support:			
Group day support	$ 377,022	$ -	$ 377,022
Supported employment	293,967	-	293,967
Project SEARCH	101,023	-	101,023
Community engagement	17,928	-	17,928
Situational assessment	3,140	-	3,140
Long-term employment services	113,638	-	113,638
Temporary Assistance for Needy Families	132,512	-	132,512
Workplace assistance	41,699	-	41,699
Special events, net	41,571	-	41,571
Contributions and grants	362,231	-	362,231
Paycheck Protection Program loan forgiveness	647,948	-	647,948
Contributed nonfinancial assets	111,000	-	111,000
Net assets released from restrictions	-	-	-
Total public support	2,243,679	-	2,243,679
Revenues and gains:			
Work contracts	2,820,048	-	2,820,048
Investment return	(323,386)	-	(323,386)
Gain (loss) on disposal of property and equipment, net	(7,349)	-	(7,349)
Other income	166	-	166
Total revenues and gains	2,489,479	-	2,489,479
Total public support, revenues and gains	4,733,158	-	4,733,158
Expenses			
Program	3,626,427	-	3,626,427
Management and general	1,538,981	-	1,538,981
Fundraising	88,175	-	88,175
Total expenses	5,253,583	-	5,253,583
Change in net assets	(520,425)	-	(520,425)
Net Assets, beginning of year	6,005,564	-	6,005,564
Net Assets, end of year	$ 5,485,139	$ -	$ 5,485,139

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2023

	Program	Management and General	Fundraising	Total
Salaries	$ 2,710,384	$ 820,283	$ 74,189	$ 3,604,856
Insurance - employees	359,479	34,460	5,830	399,769
Payroll taxes	215,243	61,358	5,822	282,423
Temporary labor	216,370	-	-	216,370
Depreciation and amortization	42,466	101,304	-	143,770
Professional fees	34,312	94,999	-	129,311
Cost of sales	98,737	-	-	98,737
Source America fees	65,111	-	-	65,111
Utilities	44,328	16,639	-	60,967
Insurance	40,353	10,099	-	50,452
Telephone	36,607	9,757	-	46,364
Retirement expense	23,371	18,569	1,129	43,069
Information technology	22,391	19,740	-	42,131
Dues	2,490	38,524	-	41,014
Maintenance	6,365	30,647	-	37,012
Meetings, travel, and activities	5,531	20,084	-	25,615
Sanitation	971	21,842	-	22,813
Marketing	84	23,857	-	23,941
Vehicles	16,158	3,043	-	19,201
Professional development	4,133	14,413	-	18,546
Office expenses	9,911	7,166	-	17,077
Interest	7,004	4,278	-	11,282
Miscellaneous	11,012	1,020	25	12,057
Supplies	2,028	5,426	-	7,454
Bank fees	17	2,742	-	2,759
Occupancy	1,317	565	-	1,882
Laundry and linens	-	1,817	-	1,817
Total expenses	$ 3,976,173	$ 1,362,632	$ 86,995	$ 5,425,800

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	Program	Management and General	Fundraising	Total
Salaries	$ 2,420,183	$ 821,656	$ 72,471	$ 3,314,310
Insurance - employees	364,666	44,889	5,925	415,480
Payroll taxes	190,515	61,253	5,379	257,147
Temporary labor	202,546	-	-	202,546
Depreciation and amortization	33,123	90,439	722	124,284
Professional fees	26,780	81,491	1,600	109,871
Cost of sales	63,666	-	-	63,666
Source America fees	60,615	-	-	60,615
Utilities	37,118	14,431	-	51,549
Insurance	54,352	14,245	-	68,597
Telephone	23,741	6,098	-	29,839
Retirement expense	18,836	64,848	2,053	85,737
Information technology	26,234	32,364	-	58,598
Dues	1,642	18,433	-	20,075
Maintenance	5,178	19,739	-	24,917
Meetings, travel, and activities	8,613	12,325	-	20,938
Sanitation	3,752	15,300	-	19,052
Marketing	217	129,713	-	129,930
Vehicles	24,998	5,063	-	30,061
Professional development	8,222	26,071	-	34,293
Office expenses	8,893	17,878	-	26,771
Equipment rentals	1,309	13,034	-	14,343
Interest	28,409	18,074	-	46,483
Miscellaneous	4,926	15,293	25	20,244
Supplies	520	10,411	-	10,931
Bank fees	20	1,713	-	1,733
Occupancy	7,297	2,700	-	9,997
Laundry and linens	56	1,520	-	1,576
Total expenses	$ 3,626,427	$ 1,538,981	$ 88,175	$ 5,253,583

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Change in net assets (without donor restrictions)	**$ 823,650**	$ (520,425)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization of property and equipment	**130,334**	124,284
Amortization of ROU assets	**13,436**	-
Amortization of debt issuance costs	**14,193**	7,121
(Gain) loss on disposal of property and equipment	**(1,103,310)**	7,349
Realized and unrealized (gains) losses on investments	**(132,696)**	375,569
Forgiveness of Paycheck Protection Program loan	**-**	(647,948)
(Increase) decrease in:		
Contract receivables	**(16,577)**	2,394
Contribution and grant receivables	**(49,895)**	5,000
Accrued revenue	**47,578**	(54,143)
Prepaid expenses and other current assets	**8,106**	16,761
Increase (decrease) in:		
Accounts payable and accrued expenses	**(146,765)**	(308,450)
Deferred revenue and refundable advances	**(47,137)**	47,137
Net cash used in operating activities	**(459,083)**	(945,351)
Cash Flows from Investing Activities		
Purchase of property and equipment	**(141,330)**	(15,883)
Proceeds from sale of investments	**339,633**	4,381,121
Purchases of investments	**(632,353)**	(3,908,851)
Proceeds from sale of property and equipment	**1,723,199**	-
Net cash provided by investing activities	**1,289,149**	456,387
Cash Flows from Financing Activities		
Reduction of finance lease liability	**(13,136)**	-
Principal payments on long-term debt	**(1,189,141)**	(138,815)
Net cash used in financing activities	**(1,202,277)**	(138,815)
Net decrease in cash and cash equivalents	**(372,211)**	(627,779)
Cash and Cash Equivalents		
Beginning	**1,029,846**	1,657,625
Ending	**$ 657,635**	$ 1,029,846
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	**$ 21,382**	$ 38,882
Non-Cash Investing and Financing Activities		
Debt incurred for purchase of equipment	**-**	48,939
ROU assets exchanged for lease liabilities	**33,509**	-

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: NW Works, Inc. and Affiliate (the Organization) is an independent nonprofit organization incorporated in 1970. The Organization provides personnel services and facilities for evaluation, training and employment of disabled persons residing in Clarke County, Frederick County, and the City of Winchester, Virginia, as well as areas in West Virginia, in order that they might perform useful and remunerative work. The Organization receives support from revenues generated by work programs for commercial and government customers, related grants and as a provider to third-party assistance programs. Loss of a major customer or a material decline in reimbursement from third-party assistance programs, if either or both occurred, could have a significant impact on the Organization's operations.

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

Basis of accounting: The consolidated financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), whereby revenues are recorded when earned and expenses are recorded when obligations are incurred.

Principles of consolidation: The consolidated financial statements include the accounts of NWW Foundation (the Foundation), which was founded in July 2018.

Cash and cash equivalents: The Organization considers highly liquid investments with a maturity of three months or less to be cash equivalents. The Organization maintains its cash in checking and savings accounts with financial institutions. Such deposits are insured by the Federal Deposit Insurance Corporation up to $250,000 per bank. The Organization has not experienced any losses in any accounts and does not believe it is exposed to significant credit risk with these deposits.

Certificates of deposit: Certificates of deposit are recorded at cost, and accumulated interest is added to the balance at maturity. At June 30, 2023, the certificates of deposit had interest rates ranging from 4% to 4.23% and maturity dates from December 2023 to March 2024.

Contract receivables: Contract receivables represent amounts due primarily from corporate and government agency customers for services provided in accordance with various contracts and provider arrangements due under normal trade terms for the industry. Unpaid receivables do not bear interest.

Contract receivable balances that are determined to be uncollectible are included in an allowance for doubtful accounts when deemed necessary. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. There is no allowance for uncollectible accounts as of June 30, 2023 and 2022.

Investments: Investments in securities are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Donated investments are recorded at fair value at the date of donation. Investments in real estate are carried at the lower of cost or fair value.

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

Investments (continued): Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment income or loss (including realized and unrealized gains and losses, interest and dividends) is included in changes in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Property and equipment: Property and equipment that is expected to be used for at least one year and is valued at greater than $2,500 is capitalized. Property and equipment are reported at cost, if purchased. Items donated to the Organization are reported at their estimated fair market value at the date of receipt. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from 5 to 40 years.

Land and liabilities held for sale: Land and liabilities held for sale consist of land that the Organization intends to sell and related debt collateralized by the land that the Organization intends to pay off upon sale. These are presented separately from land and long term debt on the statements of financial position.

Impairment of long-lived assets: In accordance with Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) Topic 360-10-05, *Accounting for the Impairment or Disposal of Long-Lived Assets*, management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Leases: Effective July 1, 2022, the Organization changed its method of accounting for leases due to the adoption of Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), as amended. The Organization adopted the standard using a modified retrospective transition approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on July 1, 2022. The adoption of this guidance resulted in the inclusion of right-of-use (ROU) assets, and current and non-current financing lease liabilities on the consolidated statements of financial position.

As part of this adoption, the Organization has elected the practical expedient relief package allowed by the new standard, which does not require the reassessment of (1) whether any existing contracts at transition are or contain leases, (2) the historical lease classification or (3) the initial direct costs for any existing leases.

Additionally, the Organization made accounting policy elections such as exclusion of short-term leases (leases with a term of 12 months or less and which do not include a purchase option that the Organization is reasonably certain to exercise) from the statement of financial position presentation, use of portfolio approach in determination of discount rate and accounting for nonlease components in a contract as part of a single lease component for all asset classes, except specific mining operation equipment. The Organization does not separate lease components for real estate leases.

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

Leases (continued): At contract inception, the Organization determines if a contract is or contains a lease and whether it is an operating lease or a finance lease. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract; and (ii) the Organization 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.

For leases that have a lease term greater than one year, the Organization initially recognizes lease liabilities and ROU assets at the lease commencement date, which is the date that the lessor makes an underlying asset available for use by the Organization. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the present value of the Organization's obligation to make lease payments, primarily escalating fixed payments, over the lease term. The discount rate used to determine the present value of the lease payments is generally the rate implicit in the lease agreement. If the discount rate implicit in the lease agreement is not readily determinable, the Organization uses its incremental borrowing rate.

The incremental borrowing rate for the lease term is determined by adjusting the Organization's unsecured borrowing rate for a similar term to approximate a collateralized borrowing rate. The Organization's lease terms for each of its leases represents the noncancelable period for which the Organization has the right to use an underlying asset, together with all of the following: (i) periods covered by an option to extend the lease, if the Organization is reasonably certain to exercise that option; (ii) periods covered by an option to terminate the lease if the Organization is reasonably certain not to exercise that option; and (iii) periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor. The Organization recognizes lease expense on a straight-line basis over the lease term.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of any index or other periodic market-rate adjustments to base rent are recorded in variable lease expenses in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probably they will be incurred.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities of $33,509 at July 1, 2022. The adoption of the new lease standard did not impact the change in net assets or cash flows and did not result in a cumulative-effect adjustment to net assets as of July 1, 2022.

Deferred revenue and refundable advances: Deferred revenue and refundable advances includes deferred advances for conditional contributions. Deferred advances are recognized when contractual performance barriers are met, which is measured based on allowable costs incurred.

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

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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

Net assets (continued): *Net assets with donor restrictions:* Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are permanent in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization presents net assets received and released in the same year as net assets without donor restrictions.

Revenue recognition: The Organization recognizes revenue in accordance with FASB ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606).

The Organization has various contracts with commercial and government agencies and is involved in third-party assistance programs for which the Organization provides a range of services.

The Organization utilizes the portfolio approach and groups contracts with similar characteristics into either time-and-materials or fixed-price contracts.

The Organization recognizes revenue as performance obligations under a contract are performed. A performance obligation is the unit of account for revenue recognition and refers to a promise in a contract to transfer a distinct service or good to the customer. The Organization promises to furnish the necessary personnel, materials, equipment, facilities and travel arrangements in accordance with any contract terms in exchange for cash payment. Payments on contracts with customers are due within 30 days of the invoice date. The majority of the Organization's contracts contain a single performance obligation. Performance obligations are satisfied over time. The Organization selects the appropriate measure of progress for revenue recognition based on the nature of the performance obligation, contract type and other pertinent contract terms.

Over time performance obligations may involve a series of recurring services performed on fixed-price and time-and-materials contracts. For recurring service performance obligations, the Organization measures progress using a cost input measure (cost-to-cost). Estimated contract revenue and resulting income based on costs incurred to date as a percentage of total estimated costs is used as the Organization considers this model best reflects the economics of these contracts. When services are sold under time-and-materials contracts, revenue is recognized based on actual time incurred multiplied by the billable hourly rate stated in the contract, plus material expense incurred.

The Organization does not derive any revenues from performance obligations that are satisfied at a point in time. If it is determined that a loss is expected to result on an individual performance obligation, the entire amount of the estimable future loss, including an allocation of general and administrative costs, is charged against income in the period the loss is identified. There was no provision for losses at June 30, 2023 and 2022.

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

Revenue recognition (continued): The Organization recognizes contract modifications which add distinct services that are priced commensurate with their stand-alone selling prices and contract modifications for services distinct from those already transferred as a separate contract.

Recognizing revenue on long-term contracts involves significant estimates and judgments. The transaction price is the consideration in which the Organization expects to be entitled for providing a service under the performance obligation of the contract. The Organization's consideration includes only fixed cash consideration. The Organization allocates the transaction price in a manner that depicts the amount of consideration to which the Organization expects to be entitled in exchange for transferring the promised services to customers.

The timing of revenue recognition may not align with the right to invoice the customer. The Organization records contracts receivable when it has the unconditional right to issue an invoice and receive payment. The contract receivables balance as of July 1, 2021 was $411,135.

Support: The Organization follows FASB ASU 2018-08 – *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* This ASU requires that an entity determine whether a revenue source is an exchange transaction covered under ASU 2014-09 or a contribution covered under ASU 2018-08. If it is determined to be a contribution, the next step is to determine if it is a conditional or unconditional contribution which affects the timing of the revenue recognized. Unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions.

Functional expense allocations: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Directly identifiable expenses are allocated to program services, management and general, or fundraising. Expenses related to more than one function are charged to program services, management and general, and fundraising classifications based on estimates made by management. Allocations are based on departmental staffing levels and other methodologies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income taxes: The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and the tax statutes of the Commonwealth of Virginia; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes.

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the IRC and the tax statutes of the Commonwealth of Virginia; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes. In addition, the Foundation qualifies as a supporting organization under IRC 509(a)(3), and the Organization is the designated supported organization.

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

Income taxes (continued): The most significant tax positions of the Organization are its assertions that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business tax. FASB ASC Topic 740, *Income Taxes*, related to uncertain tax positions, prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. Management has evaluated the impact of the standard to its consolidated financial statements. The Organization's income tax returns are subject to examination by taxing authorities, generally for a period of three years from the date the returns are filed. The Organization's policy is to classify income tax related interest and penalties in interest expense and miscellaneous expenses, respectively.

Estimates and assumptions: The preparation of consolidated financial statements in accordance with accounting standards generally accepted in the U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

Recently issued accounting pronouncements: In June 2016, the FASB issued 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 and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) 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 ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct writedown. 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 statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. The Organization is currently evaluating the impact of adopting this new guidance on its financial statements.

Reclassifications: Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements.

Subsequent events: Subsequent events have been evaluated through November 20, 2023, the date the consolidated financial statements were available to be issued.

Note 2. Liquidity

Financial assets and liquidity resources available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following as of June 30:

		2023		2022
Financial Assets:				
Cash and cash equivalents	**$**	**657,635**	$	1,029,846
Contract receivables		**425,318**		408,741
Contribution and grant receivables		**49,895**		-
Accrued revenue		**38,219**		85,797
Total financial assets		**1,171,067**		1,524,384
Less those unavailable for general expenditures within one year:				
Subject to satisfaction of donor-imposed restrictions		**(20,118)**		-
Financial assets available to meet cash needs for general expenditures within one year	**$**	**1,150,949**	$	1,524,384

As part of the Organization's liquidity management plan, excess cash balances are maintained in low interest savings accounts at various financial institutions. The Organization's cash flow comes from contracts with federal government and local business as well as grants and contributions from individuals, government agencies, and other organizations. Cash flows from these activities can vary depending on the timing of payments and services performed. In addition, investments and certificates of deposits held by the Organization could be made available for operating expenditures, if necessary.

Note 3. Major Customers

A significant portion of the Organization's revenues are derived from contracts and agreements with government agencies and other third-party payer entities. For the year ended June 30, 2023, three major customers generated $2,736,277 or 56% of total revenue, support, and gains, excluding investment return. For the year ended June 30, 2022, 3 major customers generated $2,152,322 or 49% of revenue, support, and gains, excluding contributions relating to the Paycheck Protection Program and investment return. Contract receivables include balances due from major customers totaling $175,852 and $195,411 at June 30, 2023 and 2022, respectively.

Note 4. Property and Equipment

Property and equipment, net consists of the following at June 30:

	2023	2022
Land	**459,160**	459,160
Buildings and improvements	**3,156,741**	3,125,841
Equipment and vehicles	**757,883**	695,425
Intangibles	**14,591**	14,591
	4,388,375	4,295,017
Less accumulated depreciation and amortization	**(1,838,520)**	(1,726,618)
Property and equipment, net	**2,549,855**	2,568,399

Note 5. Investments and Investment Return

Investment return consists of the following at June 30:

	2023	2022
Interest and Dividends	**$ 87,249**	$ 73,630
Realized and Unrealized Gains (Losses)	**61,109**	(375,569)
Investment Fees	**(15,662)**	(21,447)
Total investment return	**$ 132,696**	$ (323,386)

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

Level 3 Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs were not available.

Note 5. Investments and Investment Return (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the techniques and inputs used at June 30, 2023 and 2022.

Money market funds: The fair value of money market funds is the market value in trades in active markets.

Stocks: The fair value of stocks is the market value in trades in active markets.

Mutual funds: The fair value of mutual funds is the market value in trades in active markets.

Community Foundation investment pool: The Organization holds an undivided interest in a diversified pool of mutual funds sponsored by Community Foundation of the Northern Shenandoah Valley (the Community Foundation). The securities are held in an account in the name of the Community Foundation. The value of the Organization's interest in the pool is classified as Level 2 in the fair value hierarchy.

The summary of inputs used to value the Organization's investments as of June 30, 2023 is as follows:

	Level 1	**Level 2**	**Total**
Money market funds	**$ 60,093**	**$ -**	**$ 60,093**
Stocks	**1,767,099**	**-**	**1,767,099**
Mutual funds	**655,500**	**-**	**655,500**
Community Foundation investment pool	**-**	**7,758**	**7,758**
Total investments	**$ 2,482,692**	**$ 7,758**	**$ 2,490,450**

The summary of inputs used to value the Organization's investments as of June 30, 2022 is as follows:

	Level 1	Level 2	Total
Money market funds	$ 163,439	$ -	$ 163,439
Stocks	1,801,696	-	1,801,696
Mutual funds	592,803	-	592,803
Community Foundation investment pool	-	7,096	7,096
Total investments	$ 2,557,938	$ 7,096	$ 2,565,034

Note 6. Long-Term Debt

The Organization's long-term debt consists of the following at June 30:

	2023	2022
Small Business Administration note issued in the amount of $150,000 on July 2, 2020 under the Economic Injury Disaster Loan Program. The note is unsecured, bears interest at 2.75%, and requires monthly payments of principal and interest of $641 per month beginning July 2, 2021 through July 2, 2050. The Organization began making payments on the loan in October 2020.	**$ 141,304**	$ 147,473
Vehicle and equipment notes payable to various banks and finance companies, requiring monthly payments of $343 to $697, including interest from 0% to 6.89%, with maturities through June 2027, collateralized by related vehicles and equipment.	**32,129**	55,101
Series 2010 Bank Qualified Economic Development Authority Revenue Bond, payable $5,000 monthly, plus interest at 3.06%, with a scheduled maturity on September 1, 2029. Principal payments increased to $10,000 monthly beginning April 1, 2020. The bondholder, Wells Fargo Bank, has the option to require prepayment of principal or to reset the interest rate on March 1, 2026. The bonds are collateralized by three real estate parcels with improvements in Winchester, Virginia.	**-**	1,160,000
	173,433	1,362,574
Less liabilities held for sale	**-**	1,160,000
	173,433	202,574
Less current portion	**13,480**	28,331
Less unamortized debt issuance costs	**-**	14,193
Total long-term debt, net of unamortized deferred financing costs	**$ 159,953**	$ 160,050

Principal payments on these notes are due as follows:

Years Ending June 30	Amount
2024	$ 13,480
2025	10,489
2026	11,099
2027	11,111
2028	3,793
2029 & thereafter	123,461
	$ 173,433

Note 7. Line of Credit

The Organization has a $300,000 line of credit that renews annually. The expiration date of the current line of credit is March 22, 2024. Advances on the line of credit carry an interest rate of 7%. There was no outstanding balance at June 30, 2023 and 2022.

Note 8. Leases

The Organization is the lessee for equipment under a finance leases with monthly payments ranging from $55 to $785 and maturities from October 2022 through August 2026.

Lease expense under these finance leases was as follows for the years ended September 30:

Finance lease expense		
Amortization of ROU assets	$	13,436
Interest on lease liabilities		826
Total lease expense	$	14,262

The following is other supplemental information relating to the Organization's finance leases:

Operating cash flows from finance leases (i.e. interest portion)	$	826
Financing cash flows from finance leases (i.e. principal portion)		13,136
ROU assets obtained in exchange for new finance lease liabilities		33,509
Weighted-average remaining lease term in years for finance leases		1.84
Weighted-average discount rate for finance leases		3.00%

Future maturities of the Organization's finance leases are as follows:

Year(s) ending		Amount
2024	$	13,962
2025		4,917
2026		1,902
2027		159
Total undiscounted cash flows		20,940
Less: present value discount		(567)
Total lease liabilities	$	20,373

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	2023	2022
Garden	$ 15,000	$ -
Benefits counselor expenses	3,985	-
Career café	1,133	-
	$ 20,118	$ -

There were no net assets released from restriction during the years ended June 30, 2023 and 2022, respectively.

Note 10. Contributed Nonfinancial Assets and Conditional Promises to Give

The Organization received conditional promises to give from the Google Ad Grants program consisting of a maximum of $12,000 and $120,000, of donated advertising spanning 12 months during the years ended June 30, 2022 and 2021, respectively. This grant is conditional upon expenditure of funds and compliance with eligibility requirements and advertising policies. The Organization recognized $12,000 and $111,000 of contributed nonfinancial assets and advertising expense relating to this grant during the years ended June 30, 2023 and 2022, respectively, resulting in $1,000 of donated advertising support remaining.

The remainder of contributed nonfinancial assets on the statement of activities for the year ended June 30, 2023 totaling $2,555 consists of IT equipment.

During the year ended June 30, 2023, the Organization received a conditional promise to give consisting of a maximum of $69,500 in funds to purchase security equipment. This grant is conditional upon expenditure of the funds on security equipment. As of the year ended June 30, 2023, $34,895 of this had been spent and recognized as revenue, resulting in $34,605 of unrecognized funding remaining.

During the year ended June 30, 2022, the Organization received a conditional promise to give consisting of a maximum of $93,524 in funds to support the transition from 14(c) minimum wage requirements for consumers. This grant is conditional upon expenditure of the funds in accordance with donor imposed restrictions. The Organization received $47,762 of funds from this grant during the year ended June 30, 2022, which was included in deferred revenue and refundable advances on the statement of financial position for the year ended June 30, 2022 as the funds have not yet been spent. All funds were spent and recognized as revenue during the year ended June 30, 2023. These funds are considered without donor restriction as the full amount of revenue recognized was expended during the same year.

Note 11. Retirement Plans

The Organization has a 401(k) and profit sharing plan for staff employees. The plan allows eligible employees to defer a portion of their compensation up to the limit set by the Internal Revenue Service on an annual basis. Employees are eligible to participate upon meeting a standard age and minimum service requirement. The Organization, at its discretion, may match a portion of the employees' contribution not to exceed 4% of the participant's compensation. For the years ended June 30, 2023 and 2022, $48,440 and $56,004, respectively, were contributed by the Organization for all eligible employees.

The Organization became aware of a violation of the administration of the 403(b) plan. The violation resulted in a penalty owed by the Organization as the plan administrator in accordance with Voluntary Correction Program (VCP) administered by the Internal Revenue Service. The cost to correct the violation was estimated to be $305,000 and was recognized as additional retirement expense in the statement of functional expenses during the year ended June 30, 2021. Unpaid costs of $305,000 was included in other accrued expense on the consolidated statement of financial position as of June 30, 2021. During the year ended June 30, 2022, the accrued cost was paid in full.

Note 12. Assets Held for Sale

During the year end June 30, 2022, the Organization made available for sale a portion of land with a carrying value of $590,349. The land was sold on August 31, 2022 for $1,875,000. The settlement agreement set aside funds to pay off the outstanding balance of the Series 2010 Bank Qualified Economic Development Authority Revenue Bond described in Note 6. The gain on the sale of land is included in the statement of activities for the year ended June 30, 2023. A member of the Foundation's board of directors was the agent on the sale, as a part of a real estate company. The commission to the real estate company totaled $112,500.

Note 13. Risks, Contingencies and Uncertainties

During 2010, the Organization received a $1,000,000 contribution from Frederick County as part of a Community Development Block Grant. As a condition to receiving the grant, the Organization signed a promissory note and deed of trust for the grant amount, bearing interest at 0%. If the Organization meets certain obligations of the agreement, the debt will be forgiven after 20 years. The obligations include maintaining the facility and coordinating the delivery of job training and employment opportunities for disabled adults for a minimum of 20 years from the date of occupancy. The Organization's management believes the likelihood of not meeting said obligations is remote.