

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2020



ASSURANCE, TAX & ADVISORY SERVICES

NW WORKS, INC. AND AFFILIATE

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 – 2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5 – 6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8 – 16



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of NW Works, Inc. and Affiliate (the Organization), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NW Works, Inc. and Affiliate as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PBMares, LLP

Harrisonburg, Virginia

November 17, 2020

CONSOLIDATED FINANCIAL STATEMENTS

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Years Ended June 30, 2020 and 2019

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,312,756	\$ 238,098
Trade receivables, net	321,017	641,231
Accrued revenue	31,785	31,906
Inventory	29,332	25,428
Prepaid expenses and other current assets	42,927	17,918
Total current assets	1,737,817	954,581
Investments	2,859,089	3,332,507
Property and Equipment		
Land	1,049,509	1,049,509
Buildings and improvements	3,070,040	3,039,594
Equipment and vehicles	818,941	773,425
Intangibles	14,591	14,591
	4,953,081	4,877,119
Less accumulated depreciation and amortization	(1,597,221)	(1,418,190)
Property and equipment, net	3,355,860	3,458,929
Non-Current Assets		
Security Deposits	3,011	3,011
Total assets	\$ 7,955,777	\$ 7,749,028
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term debt	\$ 105,603	\$ 91,888
Accounts payable	129,268	138,173
Accrued payroll and related liabilities	130,643	138,282
Accrued compensated absences	108,875	90,404
Other accrued expenses	12,650	101,433
Total current liabilities	487,039	560,180
Long-Term Debt	1,957,280	1,337,380
Total liabilities	2,444,319	1,897,560
Net Assets		
Without donor restrictions	5,511,458	5,851,468
Total net assets	5,511,458	5,851,468
Total liabilities and net assets	\$ 7,955,777	\$ 7,749,028

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2020 and 2019

	2020	2019
Public Support and Revenues		
Public support:		
Group day support	\$ 856,826	\$ 862,132
Supported employment	167,645	193,781
Project SEARCH	77,492	44,663
Community engagement	-	20,963
Situational assessment	4,790	10,091
Long-term employment services	138,970	196,243
Temporary Assistance for Needy Families	131,437	-
Special events, net	49,883	12,514
Contributions and other grants	155,513	62,196
	1,582,556	1,402,583
Revenues and gains:		
Work contracts	3,291,691	3,118,845
Other revenues:		
Client transportation fees	39,291	68,601
Firefly Café	511,422	652,790
Investment return	47,704	330,658
Loss on disposal of property and equipment, net	(1,047)	(16,042)
Other income (loss)	(81)	21,000
	3,888,980	4,175,852
	5,471,536	5,578,435
Expenses		
Program	4,594,081	4,892,386
Management and general	1,145,899	1,073,966
Fundraising	71,566	8,703
	5,811,546	5,975,055
	(340,010)	(396,620)
Net Assets, beginning of year	5,851,468	6,248,088
Net Assets, end of year	\$ 5,511,458	\$ 5,851,468

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	Year Ended June 30, 2020			
	Program	Management and General	Fundraising	Total
Salaries	\$ 2,607,834	\$ 552,017	\$ 68,776	\$ 3,228,627
Insurance - employees	455,750	47,851	-	503,601
Temporary Labor	485,788	-	-	485,788
Payroll Taxes	215,353	42,633	-	257,986
Cost of Sales	154,740	-	-	154,740
Depreciation and Amortization	95,752	88,094	721	184,567
Professional Fees	27,462	134,238	2,000	163,700
Supplies	51,685	14,465	-	66,150
Utilities	64,016	16,227	-	80,243
Occupancy	64,136	10,004	-	74,140
Source America	56,584	-	-	56,584
Interest	31,982	19,413	-	51,395
Maintenance	25,818	9,754	-	35,572
Dues	5,959	17,276	19	23,254
Insurance	22,429	25,709	-	48,138
Retirement Expense	28,701	10,417	-	39,118
Vehicles	26,470	1,188	-	27,658
Miscellaneous	22,015	12,896	50	34,961
Marketing	9,912	16,204	-	26,116
Information Technology	17,009	53,859	-	70,868
Office Expenses	12,170	25,028	-	37,198
Sanitation	12,317	7,386	-	19,703
Laundry and Linens	10,650	1,365	-	12,015
Bank Fees	13,512	2,955	-	16,467
Equipment Rentals	5,062	12,346	-	17,408
Telephone	15,163	1,873	-	17,036
Professional Development	3,374	11,945	-	15,319
Meetings, travel, & activities	3,221	10,756	-	13,977
Bad debt expense	49,217	-	-	49,217
Total expenses	\$ 4,594,081	\$ 1,145,899	\$ 71,566	\$ 5,811,546

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES Year Ended June 30, 2019

	Year Ended June 30, 2019			
	Program	Management and General	Fundraising	Total
Salaries	\$ 2,978,334	\$ 542,070	\$ 6,421	\$ 3,526,825
Insurance - employees	395,041	37,715	-	432,756
Temporary Labor	320,420	-	-	320,420
Payroll Taxes	259,311	28,015	535	287,861
Cost of Sales	213,639	-	-	213,639
Depreciation and Amortization	94,944	92,374	721	188,039
Professional Fees	17,938	104,996	(43)	122,891
Supplies	85,584	16,578	-	102,162
Utilities	73,096	19,080	-	92,176
Occupancy	62,953	9,890	-	72,843
Source America	56,016	-	-	56,016
Interest	34,801	19,896	-	54,697
Maintenance	37,289	15,311	-	52,600
Dues	32,884	17,163	-	50,047
Insurance	24,863	24,043	-	48,906
Retirement Expense	28,114	18,329	-	46,443
Vehicles	42,911	687	-	43,598
Miscellaneous	6,967	32,082	635	39,684
Marketing	13,571	17,152	270	30,993
Information Technology	7,641	21,938	150	29,729
Office Expenses	6,240	21,524	14	27,778
Sanitation	22,374	1,131	-	23,505
Laundry and Linens	21,151	1,872	-	23,023
Bank Fees	19,795	3,209	-	23,004
Equipment Rentals	5,934	13,740	-	19,674
Telephone	14,043	3,163	-	17,206
Professional Development	6,402	8,694	-	15,096
Meetings, travel, & activities	7,984	3,470	-	11,454
Bad Debt Expense	2,146	(156)	-	1,990
Total expenses	\$ 4,892,386	\$ 1,073,966	\$ 8,703	\$ 5,975,055

NW WORKS, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ (340,010)	\$ (396,620)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	180,950	184,422
Amortization of debt issuance costs	3,617	3,617
Loss on disposal of property and equipment	1,147	16,042
Realized and unrealized gains/losses on investments	34,694	(239,181)
(Increase) decrease in:		
Trade receivables, net	320,214	(62,226)
Accrued revenue	121	(19,621)
Inventory	(3,904)	(13,910)
Prepaid expenses and other assets	(25,009)	29,289
Increase (decrease) in:		
Accounts payable and accrued expenses	(86,856)	(25,793)
Deferred revenue	-	
Net cash provided by (used in) operating activities	84,964	(523,981)
Cash Flows from Investing Activities		
Purchase of property and equipment	(82,645)	(20,343)
Proceeds from sale of investments	438,724	1,032,069
Purchases of investments	-	(432,255)
Proceeds from sale of property and equipment	-	1,750
Net cash provided by investing activities	356,079	581,221
Cash Flows from Financing Activities		
Proceeds from borrowings	688,100	-
Principal payments on long-term debt	(54,485)	(73,052)
Net cash provided by (used in) financing activities	633,615	(73,052)
Net increase (decrease) in cash and cash equivalents	1,074,658	(15,812)
Cash and Cash Equivalents		
Beginning	238,098	253,910
Ending	\$ 1,312,756	\$ 238,098
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 34,245	\$ 54,967

NW WORKS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 the 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.

Support and revenue recognition: The Organization recognizes business contract revenue when the services have been rendered or when goods have been sold. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Revenue from three major customers totaled \$2,885,335 for the year ended June 30, 2020; revenue from two major customers totaled \$1,791,704 for the year ended June 30, 2019.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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.

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.

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 the change in net assets without donor restrictions unless the income or loss is restricted by donor or law.

NW WORKS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Trade receivables: Trade 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. Trade receivables include balances due from two major customers totaling \$150,034 and \$59,626, respectively at June 30, 2020 and \$96,987 and \$209,819, respectively at June 30, 2019.

Trade 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, 2020 and 2019.

Inventory: Inventory consists primarily of food and supplies used by Firefly Café, valued at the lower of cost (determined on the first-in, first-out method) or net realizable value.

Income taxes: The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code 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 Internal Revenue Code 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.

The most significant tax positions of the Organization are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business tax. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, related to uncertain tax positions, which 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 other expenses, respectively.

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.

NW WORKS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies (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. As of June 30, 2020 and 2019, the Organization had no net assets with donor 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.

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.

Impairment of long-lived assets: In accordance with FASB 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.

Recently issued accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the lease guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

NW WORKS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Recently issued accounting pronouncements (continued): In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02 one year making it effective, for private companies for annual reporting periods beginning after December 15, 2021. The Organization does not expect this guidance to have a significant impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method.

The core principle of the ASU is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each performance obligation. The Organization is currently evaluating the impact the adoption of this guidance may have on its consolidated financial statements.

In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2014-09 one year making it effective, for private companies, for annual reporting periods beginning after December 15, 2019. The Organization has elected to adopt ASU 2020-05 and has delayed implementation of issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* for one year.

Subsequent events: Subsequent events have been evaluated through November 17, 2020, the date the consolidated financial statements were available to be issued. See Note 8.

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 statement of financial position date, comprise the following as of June 30, 2020:

Financial Assets:

Cash and cash equivalents	\$ 1,312,756
Trade receivables, net	321,017
Accrued revenue	<u>31,785</u>

Financial assets available to meet cash needs for general expenditures within one year

\$ 1,665,558

NW WORKS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Liquidity (Continued)

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 and can vary depending on the timing of payments and services performed. In addition, investments held by the Organization could be made available for operating expenditures, if necessary.

Note 3. Investments and Investment Return

Investment return consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Interest and Dividends	\$ 103,700	\$ 110,973
Realized and Unrealized Gains (Losses)	(34,694)	239,181
Investment Fees	(21,302)	(19,496)
Total investment return	\$ 47,704	\$ 330,658

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. There have been no changes in the techniques and inputs used at June 30, 2020 and 2019.

Community Foundation investment pool: The Organization holds an undivided interest in a diversified pool of mutual funds sponsored by The 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.

NW WORKS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investments and Investment Return (Continued)

The summary of inputs used to value the Organization's investments as of June 30, 2020 is as follows:

	Level 1	Level 2	Total
Money Market Funds	\$ 147,585	\$ -	\$ 147,585
Stocks	1,679,022	-	1,679,022
Mutual Funds	1,042,095	-	1,042,095
Community Foundation Investment Pool	-	(9,613)	(9,613)
Total investments	\$ 2,868,702	\$ (9,613)	\$ 2,859,089

The summary of inputs used to value the Organization's investments as of June 30, 2019 is as follows:

	Level 1	Level 2	Total
Money Market Funds	\$ 154,724	\$ -	\$ 154,724
Stocks	1,780,138	-	1,780,138
Mutual Funds	1,271,191	-	1,271,191
Community Foundation Investment Pool	-	126,454	126,454
Total investments	\$ 3,206,053	\$ 126,454	\$ 3,332,507

NW WORKS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Long-Term Debt

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

	<u>2020</u>	<u>2019</u>
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, 2021 and March 1, 2026. The bonds are collateralized by three real estate parcels with improvements in Winchester, Virginia.	\$ 1,370,000	\$ 1,415,000
Vehicle and equipment notes payable to various banks and a finance company, requiring monthly payments of \$149 to \$482, including interest from 0% to 5.25%, collateralized by related vehicles and equipment.	33,217	49,823
Trusit note issued in the amount of \$688,100 on April 21, 2020 under the Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The note is unsecured, bears interest at 1%, and requires monthly payments of principal and interest of \$40,985 per month beginning November 21, 2020 through April 21, 2022. The note contains forgiveness provisions that the Organization has not met as of June 30, 2020. The Organization intends to apply for forgiveness of this loan pursuant to provision of the CARES Act.	688,100	-
	<u>2,091,317</u>	<u>1,464,823</u>
Less current portion	105,603	91,888
Less unamortized debt issuance costs	28,434	35,555
Total long-term debt, net of unamortized deferred financing costs	<u>\$ 1,957,280</u>	<u>\$ 1,337,380</u>

The loan contains debt covenants that require the Organization to maintain a Cash Flow Coverage Ratio of not less than 1.25 to 1.00, and a Debt to Total Net Assets Ratio of less than 75:100 at the end of each fiscal year. The Organization satisfied the Debt to Total Net Assets Ratio and obtained a waiver for the Cash Flow Coverage Ratio for the fiscal year ended June 30, 2020.

NW WORKS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Long-Term Debt (Continued)

Principal payments on these notes are due as follows:

Years Ending June 30	Amount
2021	426,364
2022	500,648
2023	123,952
2024	120,353
2025	120,000
2026 & thereafter	800,000
	<u><u>\$ 2,091,317</u></u>

Note 5. Operating Lease Commitments

The Organization has a five-year operating lease for the Firefly Café located at Creekside Station. Rent expense was \$61,101 and \$57,950 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments are as follows:

Years Ending June 30	Amount
2021	61,731
2022	54,068
	<u><u>\$ 115,799</u></u>

Note 6. Retirement Plan

The Organization adopted a tax-deferred annuity plan on July 1, 1996. This plan includes a 403(b) defined contribution retirement plan, covering all W-2 employees with greater than one year of service. Contributions, net of forfeitures, were \$39,118 and \$46,443 for the year ended June 30, 2020 and 2019, respectively.

NW WORKS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Contingencies

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.

The Organization became aware of a potential violation of the administration of the 403(b) plan described in Note 6. The violation could result 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 extent of the cost to correct the potential violation is unknown and unable to be estimated.

Note 8. Subsequent Events and COVID 19 Information

On January 30, 2020, the World Health Organization declared a coronavirus outbreak to be a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, to date, the Organization is experiencing declining revenue. Concentrations due to the geographic area in which the Organization conducts business, make it reasonably possible that the Organization is vulnerable to the risk of a near-term severe impact.

As a result of the COVID 19 and the closures of the day support program, the Organization received retainer payments totaling 65% of the total authorized hours for the period closed from March 13 through July 31.

On July 2, 2020, the Organization received an Economic Injury Disaster Loan (EIDL) in the amount of \$150,000. The loan carries an interest rate of 2.75% and matures in thirty years, with payments of \$641 beginning 12 months after the date of the note.

In August 2020 the Organization decided to close Firefly Café. All expenses relating to the closure will be recorded in the second quarter of the year ended June 30, 2021 as there is no longer a future economic benefit from the operation. The Organization is still liable for the remaining term of the operating lease described in note 5 until the landlord is able to find another tenant.