

SBNG

TRESCO, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022
AND INDEPENDENT AUDITORS' REPORT

SBNG
CERTIFIED PUBLIC ACCOUNTANTS

TRESCO, INC.

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TRESCO, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Tresco, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tresco, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Tresco, Inc. as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tresco, Inc. 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 opinions.

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 Tresco, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

(Continued)

To the Board of Directors
Tresco, Inc.

Report on the Audit of the Financial Statements (Continued)

Auditors' 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards 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 Tresco, Inc.'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 Tresco, Inc.'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.

(Continued)

To the Board of Directors of
Tresco, Inc.

Report on the Audit of the Financial Statements (Continued)

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 schedule of expenditures of federal awards 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 16, 2024, on our consideration of Tresco, Inc.'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 Tresco, Inc.'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 Tresco, Inc.'s internal control over financial reporting and compliance.

SBNG, PC

January 16, 2024
El Paso, Texas

TRESCO, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

<u>ASSETS</u>	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 1,719,563	\$ 3,042,678
Restricted for employee benefits	<u>355,448</u>	<u>330,376</u>
Total cash and cash equivalents	2,075,011	3,373,054
Accounts receivable	3,141,225	2,302,342
Inventory	182,279	136,286
Prepaid expenses	<u>47,176</u>	<u>47,176</u>
Total current assets	5,445,691	5,858,858
Property and equipment, net	5,163,759	5,090,952
Assets of discontinued operations held for sale, net	197,117	385,752
Operating lease right-of-use assets, net	39,337	-
Finance lease right-of-use assets, net	<u>25,807</u>	<u>-</u>
Total assets	<u>\$10,871,711</u>	<u>\$11,335,562</u>

(Continued)

TRESCO, INC.

**STATEMENTS OF FINANCIAL POSITION
(CONTINUED)**

June 30, 2023 and 2022

LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
Current liabilities:		
Accounts payable	\$ 181,946	\$ 168,113
Deferred income	23,358	101,906
Payroll taxes and payroll payables	108,170	134,906
Accrued wages payable	193,372	158,378
Accrued paid time off	89,891	96,424
Current portion of long-term debt	249,172	247,880
Current portion of operating lease liabilities	8,594	-
Current portion of finance lease liabilities	<u>27,179</u>	<u>-</u>
Total current liabilities	881,682	907,607
Long-term debt, less current portion	490,418	738,805
Operating lease liabilities, net of current maturities	31,321	-
Finance lease liabilities, net of current maturities	<u>599</u>	<u>-</u>
Total liabilities	<u>1,404,020</u>	<u>1,646,412</u>
 <u>NET ASSETS</u> 		
Without donor restrictions:		
Undesignated	4,846,405	5,199,131
Invested in property and equipment, net	<u>4,621,286</u>	<u>4,490,019</u>
Total net assets	<u>9,467,691</u>	<u>9,689,150</u>
Total liabilities and net assets	<u>\$10,871,711</u>	<u>\$11,335,562</u>

The accompanying notes are an integral
part of these financial statements.

TRESCO, INC.

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue, support, and gains from continuing operations:		
Federal grants and contracts	\$ 10,822,183	\$ 10,614,678
State grants and contracts	7,431,920	6,428,836
Other contracts	210,383	176,784
Fees	29,297	1,551
Donations	8,325	1,845
Non-cash contributions	225,210	210,291
Gain or (loss) on disposal of assets	4,209	(2,284)
Interest	<u>24,272</u>	<u>406</u>
Total revenue, support, and gains	<u>18,755,799</u>	<u>17,432,107</u>
Expenses of continuing operations:		
Program Services		
Children	3,118,749	2,982,202
Tresco Works	<u>11,525,428</u>	<u>10,430,125</u>
Total program services	14,644,177	13,412,327
Management and general	<u>4,177,931</u>	<u>3,577,554</u>
Total expenses	<u>18,822,108</u>	<u>16,989,881</u>
Change in net assets from continuing operations	(66,309)	442,226
Change in net assets from discontinued operations	<u>(155,150)</u>	<u>(59,902)</u>
Change in net assets without donor restrictions	(221,459)	382,324
Net assets without donor restrictions, beginning of year	<u>9,689,150</u>	<u>9,306,826</u>
Net assets without donor restrictions, end of year	<u>\$ 9,467,691</u>	<u>\$ 9,689,150</u>

The accompanying notes are an integral part of these financial statements.

TRESCO, INC.

STATEMENT OF FUNCTIONAL EXPENSES FROM CONTINUING OPERATIONS

Year Ended June 30, 2023

	<u>Children</u>	<u>Tresco Works</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$2,067,855	\$ 7,500,829	\$ 9,568,684	\$1,355,543	\$10,924,227
Payroll taxes and benefits	271,405	979,726	1,251,131	1,186,432	2,437,563
Advertising and promotion	232,254	24,399	256,653	103,899	360,552
Communication and IT	30,532	50,510	81,042	137,075	218,117
Contract commissions	-	352,280	352,280	-	352,280
Contracted services	23,106	167,438	190,544	384,867	575,411
Insurance	150,711	400,636	551,347	73,919	625,266
Interest	-	-	-	46,838	46,838
Occupancy	34,343	19,931	54,274	64,555	118,829
Office expense	17,721	24,845	42,566	88,236	130,802
Operational materials and supplies	151,966	1,199,153	1,351,119	179,544	1,530,663
Professional services	-	-	-	250,858	250,858
Transportation	16,317	468,371	484,688	37,324	522,012
Travel and meetings	<u>84,736</u>	<u>41,276</u>	<u>126,012</u>	<u>9,650</u>	<u>135,662</u>
 Total expenses of continuing operations before depreciation	 3,080,946	 11,229,394	 14,310,340	 3,918,740	 18,229,080
 Depreciation and amortization	 <u>37,803</u>	 <u>296,034</u>	 <u>333,837</u>	 <u>259,191</u>	 <u>593,028</u>
 Total expenses of continuing operations	 <u>\$3,118,749</u>	 <u>\$11,525,428</u>	 <u>\$14,644,177</u>	 <u>\$4,177,931</u>	 <u>\$18,822,108</u>

The accompanying notes are an integral
part of these financial statements.

TRESCO, INC.

STATEMENT OF FUNCTIONAL EXPENSES FROM CONTINUING OPERATIONS

Year Ended June 30, 2022

	<u>Children</u>	<u>Tresco Works</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$2,010,612	\$ 6,606,957	\$ 8,617,569	\$1,356,483	\$ 9,974,052
Payroll taxes and benefits	346,384	1,146,508	1,492,892	873,262	2,366,154
Advertising and promotion	116,518	1,095	117,613	127,053	244,666
Communication and IT	63,607	36,040	99,647	145,353	245,000
Contract commissions	-	373,869	373,869	-	373,869
Contracted services	33,334	78,170	111,504	413,149	524,653
Insurance	61,408	322,266	383,674	80,728	464,402
Interest	-	-	-	57,002	57,002
Occupancy	33,166	27,351	60,517	46,609	107,126
Office expense	33,549	25,323	58,872	50,985	109,857
Operational materials and supplies	140,003	1,051,520	1,191,523	189,254	1,380,777
Professional services	-	-	-	89,344	89,344
Transportation	14,554	390,132	404,686	20,270	424,956
Travel and meetings	<u>81,121</u>	<u>27,511</u>	<u>108,632</u>	<u>17,365</u>	<u>125,997</u>
 Total expenses of continuing operations before depreciation	 2,934,256	 10,086,742	 13,020,998	 3,466,857	 16,487,855
 Depreciation and amortization	 <u>47,946</u>	 <u>343,383</u>	 <u>391,329</u>	 <u>110,697</u>	 <u>502,026</u>
 Total expenses of continuing operations	 <u>\$2,982,202</u>	 <u>\$10,430,125</u>	 <u>\$13,412,327</u>	 <u>\$3,577,554</u>	 <u>\$16,989,881</u>

The accompanying notes are an integral
part of these financial statements.

TRESCO, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ (221,459)	\$ 382,324
Change in net assets from discontinued operations	<u>155,150</u>	<u>59,902</u>
Change in net assets from continuing operations	(66,309)	442,226
Adjustments to reconcile change in net assets from continuing operations to net cash provided (used) by operating activities:		
Non-cash transactions:		
Depreciation and amortization	593,028	502,026
Loss (gain) on disposal of equipment	(4,209)	2,284
Level lease cost	578	-
Changes in operating assets and liabilities:		
Accounts receivable	(838,883)	322,659
Inventory	(45,993)	(136,286)
Prepaid expenses	-	(30,752)
Accounts payable	13,833	(212,345)
Deferred income	(78,548)	101,906
Payroll taxes and payroll payables	(26,736)	(42,871)
Accrued wages payable	34,994	(17,534)
Accrued paid time off	<u>(6,533)</u>	<u>24,117</u>
Net cash provided (used) by continuing operations	(424,778)	955,430
Net cash used in discontinued operations	<u>(199,247)</u>	<u>(14,248)</u>
Net cash provided (used) by operating activities	<u>(624,025)</u>	<u>941,182</u>
Cash flows from investing activities:		
Purchase of capital assets	(634,486)	(391,926)
Proceeds from disposal of capital assets	13,396	202,800
Proceeds from disposal of capital assets for discontinued operations	<u>232,732</u>	<u>-</u>
Net cash used in investing activities	<u>(388,358)</u>	<u>(189,126)</u>

(Continued)

TRESCO, INC.

**STATEMENTS OF CASH FLOWS
(CONTINUED)**

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from financing activities:		
Payments on long-term debt	\$ (247,095)	\$ (255,873)
Payments on finance leases	<u>(38,565)</u>	<u>-</u>
Net cash used in financing activities	<u>(285,660)</u>	<u>(255,873)</u>
Net (decrease) increase in cash, restricted cash, and cash equivalents	(1,298,043)	496,183
Cash, restricted cash, and cash equivalents, beginning of year	<u>3,373,054</u>	<u>2,876,871</u>
Cash, restricted cash, and cash equivalents, end of year	<u>\$2,075,011</u>	<u>\$3,373,054</u>
 Supplementary cash flow information:		
Interest paid.	<u>\$ 46,838</u>	<u>\$ 57,002</u>
Cash paid for amounts included in measuring operating lease liabilities.	<u>\$ 6,697</u>	<u>\$ -</u>
 Non-cash investing and financing activities:		
Operating lease assets obtained in exchange for lease obligations.	<u>\$ 46,034</u>	<u>\$ -</u>
Finance lease assets obtained in exchange for lease obligations.	<u>\$ 66,343</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – Tresco, Inc. (“the Organization”), is a New Mexico nonprofit corporation established in 1968 to provide professional and individualized services, supports, and opportunities to people of any age with differing abilities, their families, and the communities we serve. Our primary operations are conducted in New Mexico’s Doña Ana, Sierra, and Socorro counties, although contract work extends across southern New Mexico. We have entered into contracts and agreements with federal and state governmental units, other organizations, and commercial businesses to provide services to people with a variety of disabilities. For the years ended June 30, 2023 and 2022, we received most of our income from fee-for-service contracts with the U.S. Department of Defense at White Sands Missile Range, the General Services Administration, the New Mexico Department of Health, the New Mexico Human Services Department (2022 only), Horizons of New Mexico, Inc., the New Mexico Department of Transportation (NMDOT), the New Mexico Early Childhood Education and Care Department, and other federal and state agencies. We operated three primary program divisions:

Tresco Works – The Tresco Works division offers employment opportunities to persons with disabilities under contracts to provide custodial, grounds maintenance, total facility management, and other professional services primarily to federal and state agencies. Contracts under the federal AbilityOne program and the New Mexico State Use Act specify that we employ persons with disabilities to normally perform a minimum of 75% of the hours performing direct services; during the COVID-19 pandemic, this requirement was lowered to 60% during the year ended June 30, 2022.

Children Services – Children Services includes two programs serving Doña Ana, Sierra, and Bernalillo counties. TOTS Early Intervention Services assist the families of children from birth through age three who have a developmental delay or are at risk of a diagnosis of a development delay; services are provided in home-based, center-based, and community-based settings and include physical, occupational, family and speech therapies. DayOne Home Visiting programs provide assessments and screenings determining services needed during regular visits by trained home visitors to support expecting mothers and relationships between parents and their children up to age five.

Community Support Services (CSS) – The Community Support Services division provided supports needed to allow persons with developmental disabilities to live meaningful lives in their communities. Services were designed to promote economic self-sufficiency, maximize abilities, and provide support needed to allow our program participants to live in their communities. Some of the services included were daily living skills training, habilitation, vocational training, and residential support. On June 30, 2022, we closed the Community Support Services division and discontinued providing services under the Developmental Disabilities Waiver program. Related amounts are included in discontinued operations in the financial statements.

(Continued)

TRESCO, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting – Our financial statements have been prepared on the accrual basis of accounting.

Cash, Restricted Cash, and Cash Equivalents – We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted for long-term purposes are excluded from this definition.

Restricted cash consists of accounts to fund employee benefit programs which include amounts withheld from employee paychecks and amounts contributed to those programs by us. The programs included medical insurance, dental benefits, vision benefits, and an employee mutual benefit loan program. Once transferred to those accounts, those funds are not available to us for any use other than for employee benefit programs.

Receivables and Credit Policies – Accounts receivable consist primarily of noninterest-bearing amounts due from personal services rendered and work performed under contracts. We determine the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. We have evaluated all accounts receivable and have determined that no allowance was necessary on June 30, 2023 and 2022.

Inventory – Inventory consists of supplies and materials used in our operations, valued using the average cost method.

Prepaid Expenses – Prepaid expenses are payments made where a benefit will occur in a future period.

Property and Equipment – We record property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 40 years, or in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued) – We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. Fair value is determined based on future discounted cash flows or appraised value, based on the nature of the asset. There were no indicators of asset impairment during the years ended June 30, 2023 and 2022. The estimated useful lives of the assets are as follows:

<u>Class of Asset</u>	<u>Estimated Useful Life</u>
Buildings	40 years
Improvements	15 years
Vehicles and equipment	3 - 15 years
Furniture and fixtures	3 - 15 years

Net Assets – We classify net assets, revenues, gains, and losses 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.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions on their use. 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. We report contributions restricted by donors as an increase in net assets without donor restrictions if the restrictions expire (that is, when the stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. We report all other donor-restricted contributions as an increase in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, we classify net assets with donor restrictions to net assets without donor restrictions and they are reported in the statement of activities as net assets released from restrictions. There were no net assets with donor restrictions on June 30, 2023 and 2022.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition – Effective July 1, 2020, we adopted the provisions of ASC Topic 606 “Revenue from Contracts with Customers,” (Topic 606) using the retrospective method. Topic 606 provides a framework for addressing revenue recognition issues and is designed to improve comparability of revenue recognition practices across industries. The framework provides for a five-step analysis of transactions to determine when and how revenue is recognized. The five-step model for recognizing revenue from contracts with customers is as follows: (i) identify the contract, (ii) identify the performance obligation, (iii) determine the transaction price, (iv) allocate the transaction price, and (v) recognize revenue. The guidance in topic 606 was retrospectively applied to the prior year financial statements for the year ended June 30, 2020, resulting in no changes to previously reported assets, liabilities, or changes in net assets. Our primary sources of revenue are classified as follows:

Tresco Works Fee-for-Service – The Tresco Works division provides services to government entities and to other business or nonprofit entities. Most of our contracts are fixed-price agreements under which we provide specified custodial, grounds maintenance, construction/maintenance, or total facility management services over a specified period for an agreed-upon amount. In all cases, we assess whether the multiple promises should be accounted for as separate performance obligations or combined into a single performance obligation. If multiple promises in a contract are highly interrelated or require significant integration or customization that may not be otherwise transferrable to another client, they are combined and accounted for as a single performance obligation. Contract deliverables are generally procured as a bundle as part of a defined work objective or task order. Therefore, we do not assign specific revenue allocations to distinct obligations under fixed-price service contracts.

We recognize revenue over the service period of each agreement, typically on a straight-line basis, as there is continuous transfer of control to the customer over the duration of the contract. Invoices are rendered each month and are due upon presentation. Our contracts do not contain a significant financing component, which would require an adjustment to the transaction price of the contract.

Our contracts often contain options to renew existing terms for an additional period. We account for renewal options as separate contracts when they include distinct goods or services at stand-alone selling prices.

Fixed price contracts may contain incentive fees or other provisions that may either increase or decrease the transaction price. These variable amounts generally would be awarded upon achievement of certain performance metrics, program milestones or cost targets and can be based upon customer discretion. We would estimate variable consideration at the most probable amount that we expect to be entitled to, based on the assessment of the complexity of work and related risks, amount of variable consideration received historically, and the potential of significant reversal of revenue.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tresco Works Fee-for-Service (Continued) – Tresco Works also has various time-and-materials contracts, under which specified services are reimbursed at agreed-upon rates including indirect costs. We recognize revenue as services are provided, and materials are consumed or transferred to the contracting agency.

Certain contracts include provisions to compensate Tresco for the purchase of materials used in providing services. We recognize revenue when materials are purchased.

Children Services Fee-for-Service – The Children Services division has agreements with government agencies to provide services to persons and families (participants) for which we are recompensed at agreed-upon rates for each unit of service. The performance obligation of delivering goods and services is simultaneously received and consumed by the participant, therefore the revenue is recognized over time as these performance obligations are satisfied. When we provide substantiation of the provided services to the contracting agency, we recognize revenue and invoice for those services at the specified rates for each provided service.

Children Services also has cost-reimbursable grants to provide services to children and families. We recognize revenue as allowable costs are incurred for providing those services; our invoicing process provides the agency evidence of allowable expenditures, including indirect costs of providing services.

Contributions and Grants – Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. We do not recognize conditional promises to give until the conditions on which they depend have been substantially met. Revenue from grants and contributions is recognized to the extent of direct costs and allowable indirect expenses incurred under the terms of each agreement. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result, adjustments could be required.

CSS (discontinued operation) Fee-for-Service – The CSS division had agreements with government agencies to provide services to persons and families (participants) for which we were recompensed at agreed-upon rates for each unit of service. The performance obligation of delivering goods and services was simultaneously received and consumed by the participant, therefore the revenue was recognized over time as these performance obligations were satisfied. When we provided substantiation of the provided services to the contracting agency, we recognized revenue and invoiced for those services at the specified rates for each provided service.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases – At inception of a contract, the Organization assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Organization uses the definition of a lease in ASC Topic 842, *Leases*, and subsequently issued additional related ASUs (“Topic 842”).

At commencement or on modification of a contract that contains a lease component, the Organization allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. The Organization has elected to account for the lease and non-lease components as a single lease component. There were no lease agreements containing non-lease components during the years ended June 30, 2023 and 2022.

The Organization recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently amortized using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Organization by the end of the lease term or the cost of the right-of-use asset reflects that the Organization will exercise a purchase option. In that case the right-of-use asset will be amortized over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Organization's incremental borrowing rate or the risk-free rate determined with reference to the lease term.

The Organization uses an average of its interest rates for all outstanding loans and line-of-credit as an approximate incremental borrowing rate to discount future lease payments, considering the currency of the lease agreement and the terms of the lease.

(Continued)

TRESCO, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued) – Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Organization is reasonably certain to exercise, lease payments in an optional renewal period if the Organization is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Organization is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Organization's estimate of the amount expected to be payable under a residual value guarantee, if the Organization changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Organization has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Organization recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Non-Cash Contributions – Donated equipment is recorded as contributions at their estimated values at the date of receipt. In-kind services, which are defined as donations of services that would have to be purchased in order for the Organization to operate if not donated, are recorded as revenue and expenses in the Statement of Activities at the fair market value of the services received. The Organization receives Section 5310 assistance from the New Mexico Department of Transportation to be used for the purchase of vehicles. The estimated fair market value of the contributions received is reported as support in the period in which they are received.

Advertising – We expense advertising costs as incurred. We expended \$360,552 and \$244,666 for advertising and public relations during the years ended June 30, 2023 and 2022, respectively.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses from continuing operations present the natural classification detail of expenses by function. Most of our expenses, including salaries and wages, program supplies and services, occupancy, travel and transportation and depreciation are charged directly to each function. Personnel fringe benefits, payroll taxes, and insurance costs have been allocated among the functions using a systematic allocation formula.

Income Tax Status – Tresco, Inc. is organized as a New Mexico nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction and has been determined not to be a private foundation. We are required to file IRS Form 990 annually. We filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business income of \$194,914 for the year ended June 30, 2022. Direct expenses and allocated expenses reduced the taxable income to zero for the year ended June 30, 2022. For the year ended June 30, 2023, we are required to file Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business income of \$274,582.

The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending June 30, 2020, 2021 and 2022 are subject to examination by the IRS, generally for three years after they were filed. There are no ongoing IRS examinations, and we have taken no uncertain tax positions.

Accounting Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires us 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk – We manage deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in these accounts.

Credit risk associated with accounts receivable and promises to give is limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Compensation – All employees earn sick leave in accordance with New Mexico statute. One hour of sick leave is accrued for each 30 hours worked; use of sick leave is limited to 64 hours per year. For those employees on federal contracts, the state mandated leave exceeds that required by the Service Contract Act. Unused sick leave is not compensable at termination.

Employees in wage determination positions on federal contracts receive vacation in accordance with the Service Contract Act. Unused vacation is paid out at each employee’s employment anniversary date.

Employees not in wage determination positions receive a grant of annual leave on their employment anniversary date. Unused annual leave is not compensable at termination.

2. NEW ACCOUNTING STANDARDS PRONOUNCEMENTS

Leases

In February 2016, the FASB established Topic 842, *Leases* (“Topic 842”), by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 942*; ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*; and ASU No. 2018-11, *Targeted Improvements*. The new standard establishes a right-of-use model (“ROU”) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

For entities other than public business entities, ASU 2016-02 was effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application was permitted. The Organization adopted the new standard on its effective date, which was July 1, 2022.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

2. NEW ACCOUNTING STANDARDS PRONOUNCEMENTS (CONTINUED)

Leases (Continued)

The new standard provided a number of optional practical expedients in transition. The Organization elected the package of practical expedients, which permitted management not to reassess under the new standard the prior conclusions about lease identification, lease classification and initial direct costs. The Organization did not elect the use-of-hindsight or the practical expedient pertaining to land easements.

The new standard also provided practical expedients for the Organization's ongoing accounting. The Organization elected the short-term lease recognition exemption for certain operating leases. This means, for those leases that qualified, the Organization did not recognize ROU assets or lease liabilities, including not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Organization did not elect the practical expedient to separate lease and non-lease components for its leases. The disclosures for all periods prior to the initial implementation of Topic 842 are required to continue to be presented in accordance with Topic 840.

A modified retrospective transition approach was required, which meant applying the new standard to all leases existing at the date of initial application of July 1, 2022. The Organization has applied the accounting requirements established under FASB 842-10-65, which requires the Organization to apply the new lease requirements either 1) retrospectively to the earliest reporting period presented in the financial statements with the cumulative effect recognized at the beginning of the earliest comparative period, or 2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Organization has elected the second alternative and has applied the cumulative effect adjustment to July 1, 2022, the date of initial implementation.

This standard implementation resulted in an initial recognition of operating and finance ROU assets and associated operating and finance lease liabilities on the Organization's statement of financial position and provided significant new disclosures about leasing activities. There was no impact to the Organization's results of operations for prior periods.

(Continued)

TRESCO, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2023 and 2022, are comprised of the following:

	<u>2023</u>	<u>2022</u>
Unrestricted cash and cash equivalents	\$1,719,563	\$3,042,678
Accounts receivable	<u>3,141,225</u>	<u>2,302,342</u>
	<u>\$4,860,788</u>	<u>\$5,345,020</u>

As part of our liquidity management plan, we may invest cash exceeding daily requirements in short-term investments, CDs, and money market funds. In the event of an unanticipated liquidity need, we could have drawn upon our \$1,000,000 line-of-credit with a bank in fiscal years 2023 and 2022.

4. CASH AND CASH EQUIVALENTS

We maintain cash balances at several financial institutions located in southern New Mexico which are insured through the Federal Deposit Insurance Corporation (FDIC).

On June 30, 2023 and 2022, our uninsured cash balances totaled \$1,615,589 and \$3,143,139, respectively.

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following on June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
United States Government	\$2,137,009	\$1,028,522
State of New Mexico	669,610	932,753
Horizons of New Mexico, Inc	323,017	331,500
Other	<u>11,589</u>	<u>9,567</u>
	<u>\$3,141,225</u>	<u>\$2,302,342</u>

(Continued)

TRESCO, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following on June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
For continuing operations:		
Land	\$ 563,227	\$ 563,227
Buildings	5,702,622	5,646,145
Leasehold improvement	1,182,244	1,182,244
Vehicles	4,201,223	3,926,984
Furniture, fixtures, and equipment	<u>626,044</u>	<u>594,946</u>
	12,275,360	11,913,546
Less accumulated depreciation and amortization	<u>(7,111,601)</u>	<u>(6,822,594)</u>
	<u>\$ 5,163,759</u>	<u>\$ 5,090,952</u>
From discontinued operations, held for sale		
Land	\$ 25,000	\$ 60,000
Buildings	<u>258,072</u>	<u>408,247</u>
	283,072	468,247
Less accumulated depreciation and amortization	<u>(85,955)</u>	<u>(82,495)</u>
	<u>\$ 197,117</u>	<u>\$ 385,752</u>

Depreciation and amortization expense for the fiscal years ended June 30, 2023 and 2022, was \$563,455 and \$613,044, respectively; of this, expenses related to discontinued operations were \$10,963 and \$111,017, respectively.

(Continued)

TRESCO, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

7. AMOUNTS HELD FOR OTHERS

Through June 30, 2022, we held funds as representative payee for Social Security beneficiaries. These were personal funds belonging to participants in our programs. The funds were held in bank accounts under the owner's names. We hold funds in a pooled trust for participants in Tresco, Inc. programs. Amounts held on June 30, 2023 and 2022, were:

	<u>2023</u>	<u>2022</u>
Held as representative payee	\$ -	\$65,208
Held as trustee	<u>22,393</u>	<u>31,099</u>
	<u>\$22,393</u>	<u>\$96,307</u>

We have no variance power or ability to direct these funds, therefore these amounts are not reported in the financial statements.

8. LINE-OF-CREDIT

On July 15, 2020, we opened a line-of-credit with a financial institution. The line is for \$1,000,000 and originally matured September 15, 2021; it has been extended multiple times with the latest extension through November 12, 2024. The outstanding principal balance of this line-of-credit was zero on both June 30, 2023 and 2022. The line-of-credit was secured by our accounts receivable and real estate. Any unpaid principal balance bore interest at an annual rate equal to 0.79% plus the prime rate announced by the bank; any interest was to be paid monthly. There were no borrowings on this line-of-credit during the years ended June 30, 2023 and 2022.

(Continued)

TRESCO, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

9. LONG-TERM DEBT

Our long-term debt consists of the following on June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Note payable to a financial institution, payable in monthly installments of \$23,413 including interest at 5% per annum. The note is secured by real estate and equipment and matures in April 2026.	\$ 739,590	\$ 975,762
Vehicle note payable to a finance company, payable in monthly installments of \$702 including interest at 4.87% per annum. The note was secured by the vehicle and matured in December 2022.	-	4,147
Vehicle note payable to a finance company, payable in monthly installments of \$574 including interest at 5.70% per annum. The note was secured by the vehicle and matured in December 2022.	-	3,388
Vehicle note payable to a finance company, payable in monthly installments of \$574 including interest at 5.70% per annum. The note was secured by the vehicle and matured in December 2022.	<u>-</u>	<u>3,388</u>
Total long-term debt	739,590	986,685
Less current maturities of long-term debt	<u>(249,172)</u>	<u>(247,880)</u>
Long-term debt, net of current maturities	<u>\$ 490,418</u>	<u>\$ 738,805</u>

Interest expense related to long-term debt of \$44,867 and \$57,002 was incurred during the fiscal years ended June 30, 2023 and 2022, respectively.

(Continued)

TRESCO, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

9. LONG-TERM DEBT (CONTINUED)

Scheduled principal payments due in future periods are included in the table below:

Year Ending June 30,

2024	\$249,172
2025	262,182
2026	<u>228,236</u>
	<u>\$739,590</u>

10. DISAGGREGATION OF REVENUE

Disaggregated revenues from contracts for the years ended June 30, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Tresco Works federal contracts	\$10,822,182	\$10,614,678
Tresco Works state contracts	3,648,872	2,896,855
Children Services	3,508,467	3,337,067
Tresco Works construction contracts	274,582	194,914
Tresco Works commercial contracts	<u>210,383</u>	<u>176,784</u>
	<u>\$18,464,486</u>	<u>\$17,220,298</u>

(Continued)

TRESCO, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

11. LEASES PAYABLE

Real Estate

The Organization leased office space located at 726 E. Michigan, Suite 406, Hobbs, New Mexico under a lease agreement that expired in November 2023. Monthly lease payments were \$350.

The Organization leases office space located at 780 Landers Rd., Anthony, New Mexico under a lease agreement that expires in April 2028. Monthly lease payments are \$832.

Equipment

The Organization leases equipment consisting of copiers, printers, and postage meters under three non-cancellable operating lease agreements. Monthly lease payments range from \$151 to \$3,227 and expiration dates range from February 2024 to October 2024.

Balance Sheet Summary – The following summarizes line items in the statement of financial position, which include amounts for operating leases as of June 30, 2023:

Operating Leases

Operating lease right-of-use assets	\$46,034
Less accumulated amortization	<u>6,697</u>
Operating lease right-of-use assets, net	<u>\$39,337</u>
Operating lease liabilities	\$39,915
Less current portion of operating lease liabilities	<u>8,594</u>
Operating lease liabilities, net of current portion	<u>\$31,321</u>

Finance Leases

Finance lease right-of-use assets	\$66,343
Less accumulated amortization	<u>40,536</u>
Finance lease right-of-use assets, net	<u>\$25,807</u>
Finance lease liabilities	\$27,778
Less current portion of finance lease liabilities	<u>27,179</u>
Finance lease liabilities, net of current portion	<u>\$ 599</u>

(Continued)

TRESCO, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

11. LEASES PAYABLE (CONTINUED)

Balance Sheet Summary (Continued) –

Maturities of lease liabilities under non-cancellable operating and finance leases are as follows:

<u>Year Ending June 30,</u>	<u>Operating</u>	<u>Finance</u>
2024	\$11,249	\$27,628
2025	9,988	604
2026	9,988	-
2027	9,988	-
2028	<u>7,492</u>	<u>-</u>
Total undiscounted lease payments	48,705	28,232
Less imputed interest	<u>(8,790)</u>	<u>(454)</u>
Total lease liabilities	<u>\$39,915</u>	<u>\$27,778</u>

Lease Costs – Operating lease costs for the year ended June 30, 2023, are summarized as follows:

Base operating lease costs	\$6,119
Level lease costs	<u>578</u>
Total rent expense included in occupancy	<u>\$6,697</u>

Base operating lease costs and level operating lease costs include primarily the portion of lease payments that is attributed to interest, and the amortization of right of use assets that is in excess of cash payments made for operating leases during the year.

Finance lease costs for the year ended June 30, 2023, are summarized as follows:

Amortization of finance lease assets included in depreciation and amortization	\$38,565
Interest on finance lease liabilities	<u>1,971</u>
	<u>\$40,536</u>

Weighted Average Lease Term and Discount Rate – The following summarizes the weighted average remaining lease term and discount rate as of June 30, 2023:

(Continued)

TRESCO, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

11. LEASES PAYABLE (CONTINUED)

Weighted Average Lease Term and Discount Rate (Continued) –

	<u>Operating</u>	<u>Finance</u>
Weighted average remaining lease term	4.61 years	0.72 years
Weighted average discount rate	8.64%	4.04%

Lease Commitments as of June 30, 2022 (Prior to implementation of Topic 842) – The following schedule shows the aggregate commitments of future minimum lease payments by year, as they were required by each non-cancelable operating lease, as of June 30, 2022, and prior to the implementation of Topic 842:

<u>Year Ending June 30,</u>	
2023	\$44,974
2024	32,605
2025	<u>2,354</u>
Total minimum lease payments	<u>\$79,933</u>

Total lease expense, for the year ended June 30, 2022, was \$35,595.

12. LEASES RECEIVABLE

Lessor Agreements – The Organization has entered into lease agreements with nonprofit agencies working with persons with disabilities for its offices located in Socorro and Las Cruces, New Mexico. The agreement in Socorro required monthly payments of \$500 and expired in August 2023. Subsequent to year-end we entered into a new agreement in Socorro requiring monthly payments of \$1,000 and expiring in August 2025. The agreement in Las Cruces requires monthly payments of \$8,000 and expires in June 2026. Total lease income recognized for the year ended June 30, 2023, was \$5,000 and is included in fees revenue presented in the statements of activities as part of revenue, support, and gains from continuing operations. Cash receipts from leases are classified within cash flows from operating activities.

Total minimum future lease payments receivable are as follows:

<u>Year Ending June 30,</u>	
2024	\$107,000
2025	108,000
2026	<u>98,000</u>
	<u>\$313,000</u>

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. RETIREMENT PLANS

Tresco Retirement Plan – In 1994, we established a retirement plan (Tresco Retirement Plan or TRE) under Internal Revenue Code Section (IRC) 403(b)(7) for all participating employees who had attained age 18 and completed one year of service. Participating employees could contribute to the Plan. At inception, employer contributions were discretionary.

Beginning July 1, 2019, we began to match employee TRE wage or salary deferrals up to six percent of each employee's salary at one-half of the employee's contribution; that is, the maximum company contribution is three percent of wages or salary for employees contributing at least six percent of their wages or salary to the Plan.

Beginning July 1, 2020, we matched deferrals to the TRE plan up to three percent of each employee's wages or salary at 100% and additional contributions up to an additional two percent of wages or salary at one-half of the employee's contribution; during fiscal year 2021, the maximum company contribution was four percent of wages or salary for employees contributing at least five percent of their salary to the Plan.

Beginning July 1, 2021, we matched deferrals to the TRE plan up to four percent of each employee's wages or salary at 100%; during fiscal year 2023, the maximum company contribution was four percent of wages or salary for employees contributing at least four percent of their salary to the Plan.

Employees vest in employer contributions at 20% per year with 100% vesting at five years. We contributed \$30,591 to the Plan during the year ended June 30, 2022.

Effective October 1, 2021, we amended TRE to terminate making deferrals and matching contributions, instead funding the new Tresco 401k Plan, with the intention of merging TRE into the 401k Plan.

Tresco Government Contractors Savings Plan – We established a profit-sharing plan (Tresco Government Contractors Savings Plan or TGC) on January 1, 1999, for employees in wage determination positions on federal contracts covered by the Service Contract Act. The amount of our contribution was computed using a contractually specified hourly benefit rate for each individual contract, less the cost of health insurance and other benefits provided. Employees are vested 100% in these contributions; \$239,321 were contributed to this plan for the year ended June 30, 2022.

Effective October 1, 2021, we amended TGC to terminate making contributions, instead contributing to the new Tresco 401k Plan, with the intention of merging TGC into the 401k Plan.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. RETIREMENT PLANS (CONTINUED)

Tresco 401k Plan – Effective October 1, 2021, we established a new retirement plan (Tresco 401k Plan or 401k Plan) into which we deposit employee wage and salary deferrals and our discretionary matching contributions at 100% of deferrals up to a maximum of 4% of employee wage and salary deferrals. Employees vest in employer matching contributions at 20% per year with 100% vesting at five years. We contributed matching contribution of \$117,500 and \$72,310 to the Plan during the years ended June 30, 2023 and 2022, respectively.

We also deposit our contributions for wage determination employees on federal contracts covered by the Service Contract Act to the 401k Plan. The amount of our contribution related to the Service Contract Act was computed using a contractually specified hourly benefit rate for each individual contract, less the cost of health insurance and other benefits provided. Employees are vested 100% in these contributions; \$668,337 and \$518,201 were contributed to this plan from Service Contract Act health and welfare benefit payments for the years ended June 30, 2023 and 2022, respectively.

14. CONCENTRATION OF RISK

We received approximately 97% and 98% of our support and revenues from federal and state governmental contracts and agreements for the years ended June 30, 2023 and 2022, respectively. Amounts received or receivable from federal and state agencies are subject to audit and adjustment by said agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. We believe that liabilities resulting from disallowed amounts will not have a material effect on our financial statements.

The Organization has a requirement related to the federal AbilityOne Program (“the Commission”) and New Mexico State Use Act (“the State”) contracts which states that a specified agency-wide percentage of direct labor under those agreements is to be performed by persons with significant disabilities; this percentage is normally 75%. This requirement is measured on a different fiscal year end from that of the Organization and the Commission as well as the State which ends in September; however, the Organization is required to track and submit quarterly reports for any fiscal year. During fiscal year 2023 we experienced shortfalls in two quarters for the direct labor hours requirement. Despite our agency-wide ratio dropping below 75% for the quarters ended March 31, 2023 and June 30, 2023, we promptly implemented corrective measures in the first quarter of fiscal year 2024, which ended September 30, 2023, ensuring compliance with both the Commission and the State's direct labor hours requirement. For the year ended June 30, 2022, we complied with this requirement.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

15. NON-CASH CONTRIBUTIONS

In-Kind Equipment – We participate in a grant program of the New Mexico Department of Transportation (NMDOT) that provides us with vehicles to transport persons with disabilities to their job sites. This program passes through federal funds under 49 USC 5310. During the years ended June 30, 2023 and 2022, we received commitments and revised commitments from NMDOT to provide vehicles that we recognized as non-cash contributions totaling \$218,442 and \$210,291, respectively, in the statements of activities. Four vehicles have been received from fiscal year 2021 and 2022 awards during the year ended June 30, 2023 and such expenditures have been included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2023. None of the vehicles from the fiscal year 2023 award were received and, therefore, those amounts are included in accounts receivable on the statements of financial position for the year ended June 30, 2023. Under contractual agreements with the NMDOT, all vehicles acquired under the 5310 grant program are limited to be used for public transportation of seniors and individuals with disabilities.

In-Kind Leases – We lease a building from the City of Las Cruces under a fifty-year lease agreement entered in 1977, amended in 1982, calling for annual payments of \$1. The agreement provides an option to be renewed (in 2027) for an additional forty-nine years. Fair market value of the rent received for the year ended June 30, 2023 was \$4,500 and is included in non-cash contributions in the statements of activities. Since there is no exchange of consideration, this contract does not fall within the scope of Topic 842. No in-kind donation was recognized for the year ended June 30, 2022 as there was no estimate of the fair market value of rent available.

We lease a building from the City of Socorro under a ninety-nine-year lease agreement entered in 1993, calling for annual payments of \$1. The agreement provides for a review of the lease after thirty years (in 2023) and after sixty years (in 2053). Fair market value of the rent received for the year ended June 30, 2023 was \$2,268 and is included in non-cash contributions in the statements of activities. Since there is no exchange of consideration, this contract does not fall within the scope of Topic 842. No in-kind donation was recognized for the year ended June 30, 2022 as there was no estimate of the fair market value of rent available.

16. RELATED PARTY TRANSACTIONS

The wife of the previous CEO was paid \$39,898 and \$38,458 for the years ended June 30, 2023 and 2022, respectively, for managing our Social Security representative payee program. Her continued employment was disclosed to the Board of Directors annually and her position reported directly to the Chief Operating Officer.

17. RISK MANAGEMENT

We are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. We pay annual premiums for its general liability, bonding, directors and officers, and worker's compensation insurance coverages.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

18. DISCONTINUED OPERATIONS

Effective June 30, 2022, we discontinued the Community Support Services division and withdrew from participation in the Developmental Disabilities Waiver program. During the four months prior to the discontinuation, we transferred the care responsibilities of those in residential care to other agencies; most of our employees involved in direct care moved to the new agencies with those participants they were supporting.

We continue to use most of the assets that were associated with the CSS division, except for one residence formerly occupied by program participants. That residence, net of related accumulated depreciation, is included in our statements of financial position as assets of discontinued operations held for sale. Activity of the CSS division is reported on our statements of activities as the change in net assets from discontinued operations; related expenses are not reported in our statements of functional expenses from continuing operations. The statements of cash flows segregate the activities of the CSS division, including the changes in the operating assets and liabilities related to CSS.

Activity of the CSS division for the years ended June 30, 2023 and 2022, is summarized below.

	<u>2023</u>	<u>2022</u>
Revenue	\$ 2,029	\$ 4,476,462
Gain on sale of assets	55,060	-
Direct operating expenses	(201,276)	(4,425,347)
Depreciation expenses	<u>(10,963)</u>	<u>(111,017)</u>
	<u>\$(155,150)</u>	<u>\$ (59,902)</u>

19. CONTINGENT LIABILITIES

Litigation – We are a party to various claims. Based on information available, our legal counsel does not believe that there is a likelihood of a financial outlay by Tresco in any of these matters and we are unable to estimate any potential range of loss.

Grants and Contracts – In 2023, NMDOT granted \$170,400, to purchase vehicles to be given to us. These vehicles had not been received by June 30, 2023, and the awarded amounts are recorded as receivable in the statements of financial position; we consider the award from NMDOT unconditional promises to give and recognize those amounts when each commitment is received. We have also received vehicles under this program in prior years. NMDOT places a lien on vehicles acquired through this grant program. When a vehicle acquired through the grant program is no longer serviceable, we apply to NMDOT for the lien to be released and the title cleared for disposal. The cost of vehicles under such liens was \$2,047,235 and \$1,633,066 for the years ended June 30, 2023 and 2022. The book value of those vehicles was \$465,146 and \$131,235 at June 30, 2023 and 2022, respectively.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

19. CONTINGENT LIABILITIES (CONTINUED)

Retirement Plans – The IRS Forms 5500 for the Tresco Government Contractors Savings Plan for the years ended 2016-2022 and the IRS Forms 5500 for the Tresco, Inc. Retirement Plan for the years ended 2009-2022 are not in compliance with Department of Labor rules and regulations because those years were not audited as required by the DOL. Because we are the Plan sponsor, the DOL could impose penalties; we are unable to estimate the possible penalties. The audits are in process. We have engaged outside counsel to assist in bringing all plans into compliance.

20. COMMITMENT

Effective November 22, 2022, we entered into an agreement with Sylvia Washington as President and Chief Executive Officer for the term of one year, ending November 21, 2023. The agreement called for an annual base salary of \$140,000 and provided a one-time retirement contribution at the end of the agreement, a vehicle for business use, and enrollment of the President and CEO and her family in our benefit plans at no cost to Ms. Washington. We retain the right to terminate the President and CEO for cause with no additional compensation beyond that due at the termination date, or without cause with three months of additional compensation beyond the termination date subject to a release of potential claims by the President and CEO. The agreement states that for twelve months following termination of employment or expiration of the agreement, the President & CEO will not 1) enter into business with, work with or solicit for employment elsewhere any person who then was employed by us; or 2) enter into business with or work for any other entity then in competition with us without written permission from our Board of Directors.

21. CONTINGENCY

Employee Retention Credit – Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (“the CARES Act”), the Organization is eligible for a refundable employee retention credit (ERC) subject to certain criteria. In May 2023, the Organization applied to the Internal Revenue Service (“IRS”) to obtain the ERC. The refundable amount submitted to the IRS was \$5,879,432 and will be used to offset related expenditures. The ERC application is still pending payment and processing from the IRS and, therefore, there is no specific date as to when the refund will be received. Management has determined that the most appropriate guidance to recognize income from this transaction is Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. Due to the uncertainty of when the payment will be received, management considers the final processing and payment from the IRS as an essential criterion for meeting the requirements necessary for recognizing this credit in the statements of activities.

(Continued)

TRESCO, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

22. SUBSEQUENT EVENTS

President and Chief Executive Officer – In November 2022, we entered a Contract of Employment with President & CEO, Sylvia Washington. The contract began November 22, 2022, and was scheduled to end November 21, 2023. A subsequent agreement extended the end date of the Contract of Employment to November 13, 2024. The extension calls for an annual base salary of \$147,000 and provides a one-time retirement contribution at the end of the contract period, a housing allowance, a vehicle for business use, and health insurance for the President & CEO and her family. The agreement stated that for twelve months following termination of employment or expiration of the agreement, the President & CEO will not 1) enter into business with, work with or solicit for employment elsewhere any person who then was employed by us; or 2) enter into business with or work for any other entity then in competition with us without written permission from our Board of Directors.

Discontinued Operations Sale of Property – In July 2023, the Organization sold property for a total sales price of \$250,000. This property was the only residence left in assets of discontinued operations.

New Mexico Department of Transportation Grants – In July 2023, we received an award to provide vehicles transporting persons with disabilities of \$340,869. Although vehicles have been purchased, these have not yet been received.

We have evaluated subsequent events through January 16, 2024, the date the financial statements were available to be issued.

SBNG

AUDITORS' SECTION

SBNG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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*

To the Board of Directors
Tresco, 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, the financial statements of Tresco, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 16, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tresco, Inc.'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 Tresco, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Tresco, Inc.'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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Item 2023-001 that we consider to be a significant deficiency.

(Continued)

To the Board of Directors
Tresco, Inc.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tresco, Inc.'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Item 2023-001.

Management's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Tresco, Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Tresco, Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SBNG, PC

El Paso, Texas
January 16, 2024

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

To the Board of Directors
Tresco, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Tresco, Inc.'s 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 each of Tresco, Inc.'s major federal programs for the year ended June 30, 2023. Tresco, Inc.'s major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Tresco, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; 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 Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Tresco, Inc. 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 each major federal program. Our audit does not provide a legal determination of Tresco, Inc.'s compliance with the compliance requirements referred to above.

(Continued)

To the Board of Directors
Tresco, Inc.

Report on Compliance for Each Major Federal Program (Continued)

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 Tresco, Inc.'s federal programs.

Auditors' 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 Tresco, Inc.'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 generally accepted auditing standards, *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 Tresco, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 Tresco, Inc.'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 Tresco, Inc.'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 Tresco, Inc.'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.

(Continued)

To the Board of Directors
Tresco, Inc.

Report on Compliance for Each Major Federal Program (Continued)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2023-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Tresco, Inc.'s response to the noncompliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. Tresco, Inc.'s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 weaknesses 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2023-001 to be a significant deficiency.

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.

(Continued)

To the Board of Directors
Tresco, Inc.

Report on Internal Control over Compliance (Continued)

Government Auditing Standards requires the auditor to perform limited procedures on Tresco, Inc.'s response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Tresco, Inc.'s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

SBNG, PC

El Paso, Texas
January 16, 2024

TRESCO, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2023

Program Title	Assistance Listing Number	Agency or Pass-Through Number	Contract Period	Award Amount	Federal Expenditures
FEDERAL EXPENDITURES					
Federal Transit Administration					
<i>Passed through New Mexico Department of Transportation</i>					
Transit Services Program Cluster:					
Section 5310 - Mobility of Seniors and Individuals with Disabilities: Capital	20.513	MO01756	10/1/2020-9/30/2021	\$ 246,665	\$ 246,665
Section 5310 - Mobility of Seniors and Individuals with Disabilities: Capital	20.513	MO1805	10/1/2021-9/30/2022	197,481	<u>197,481</u>
Total 20.513					<u>444,146</u>
Total Transit Services Programs Cluster					<u>444,146</u>
Total Federal Transit Administration					<u>444,146</u>
U.S. Department of Health and Human Resources					
<i>Passed through New Mexico Early Childhood Education & Care Department</i>					
Maternal, Infant and Early Childhood Home Visiting Program	93.870	ARPF01-Federal	5/3/2021-9/30/2023	39,100	39,100
Maternal, Infant and Early Childhood Home Visiting Program	93.870	ARPF02-Federal	12/3/2021-9/30/2024	112,500	112,500
Maternal, Infant and Early Childhood Home Visiting Program	93.870	CSUTF05-Federal	07/1/2022-06/30/2023	78,059	<u>78,059</u>
Total 93.870					<u>229,659</u>
<i>Passed through New Mexico Early Childhood Education & Care Department</i>					
477 Cluster:					
Temporary Assistance for Needy Families	93.558	HVPTANF04- Federal	07/01/2022-07/01/2023	361,080	<u>361,080</u>
Total 93.558					<u>361,080</u>
Total 477 Cluster					<u>361,080</u>
Total U.S. Department of Health and Human Resources					<u>590,739</u>
Total federal expenditures					<u>\$ 1,034,885</u>

See notes to schedule of expenditures of federal awards.

TRESCO, INC.

**NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

Year Ended June 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Tresco, Inc. is presented to assist in understanding Tresco, Inc.'s Schedule of Expenditures of Federal Awards ("SEFA"). The Schedule and notes are representations of Tresco, Inc.'s management, who is responsible for their integrity and objectivity.

Basis of Accounting and Presentation – The SEFA is prepared using the accrual basis of accounting. The information in the schedule is presented in accordance with the Uniform Guidance; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Indirect Costs – Expenditures of federal awards may include a portion of costs associated with general and administrative activities, which are allocated to federal assistance programs under negotiated formulas, commonly referred to as indirect cost rates and federally approved cost allocation plans. The Organization has not negotiated an indirect rate with its federal cognizant agency and has elected to use the de minimis rate of 10% of modified total direct cost as an indirect cost allocation factor, as allowed under 2 CFR §200.414 when allowable by federal grantors.

Sub-Recipients – There were no sub-recipients of the federal awards received by Tresco, Inc. for the year ended June 30, 2023.

2. NON-CASH ASSISTANCE

The Organization is the sub-recipient of federal financial assistance that does not result in cash receipts or disbursements and that is valued at fair market value at the time of the receipt. This assistance is identified as Section 5310 – Mobility of Seniors and Individuals with Disabilities: Capital ("5310 program") assistance listing number 20.513 in the SEFA. The following is a reconciliation of total federal awards expended for the 5310 programs as reported in the SEFA to non-cash contributions in the statements of activities at June 30, 2023:

Non-cash contributions	\$225,210
Less other in-kind non-federal assistance	(6,768)
Add, non-cash federal assistance awarded during fiscal year 2023	396,104
Less, non-cash federal assistance included in accounts receivable for equipment not received at June 30, 2023	<u>(170,400)</u>
Total 5310 program expenditures per SEFA	<u>\$ 444,146</u>

TRESCO, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2023

I. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Tresco, Inc.
2. A significant deficiency was reported in the audit of the financial statements of Tresco, Inc. as reported in the Independent Auditors' 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*.
3. There was an instance of non-compliance disclosed by the audit of the financial statements of Tresco, Inc., which would be required to be reported in accordance with *Government Auditing Standards*.
4. No significant deficiencies or material weaknesses in internal control over major federal award program were reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance required by the Uniform Guidance.
5. The auditors' report on compliance over major federal and state award programs for Tresco, Inc. expresses an unmodified opinion on each major program.
6. There are no audit findings that are required to be reported in accordance with the Uniform Guidance.
7. The program tested as a major federal program was:
Federal Transit Administration Assistance Listing 20.513 Section 5310 – Mobility of Seniors and Individuals with Disabilities: Capital, included in the Transit Services Program Cluster.
8. The threshold used for distinguishing between Type A and B programs was \$750,000 for federal programs.
9. Tresco, Inc. did not qualify as a low-risk auditee.

(Continued)

TRESCO, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Year Ended June 30, 2023

**II. AUDIT FINDINGS RELATING TO THE FINANCIAL STATEMENTS
WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
“GOVERNMENT AUDITING STANDARDS”**

Finding 2023-001:

**Failure to Maintain Adequate Documentation on Employees’ Disabilities and to Properly Classify Employees as Disabled or Non-disabled.
(Repeat with Modification)**

Criteria: According to U.S. AbilityOne Commission’s policy on direct labor hour ratio requirements, a nonprofit agency (NPA) must have documentation for each direct labor employee counted towards the 75% ratio requirement, showing that the employee meets the Commission’s definition of either a person who is blind or a person with significant disabilities. These requirements include medical or psychological documentation of the employee’s disabilities and the extent of those disabilities, as well as an initial and annual Individual Employee Evaluation (IEE). All NPAs authorized by the U.S AbilityOne Commission to deliver services under the AbilityOne Program must report their direct labor data to Source America through the Quarterly Employment Report (QER) 30 days after the end of each of the first quarters and 15 days after the end of the last quarter.

Condition: Out of a sample of 40 employees selected for examination (28 classified as disabled and 12 as non-disabled), the Organization failed to provide adequate documentation on one employee classified as disabled. In addition, another employee had appropriate supporting disability documentation on file but was incorrectly classified as non-disabled. We also noted that one out of four QER reports was submitted one day after the deadline.

Cause: Management’s payroll database is not fully integrated with its employee filing system. Therefore, the payroll database does not distinguish when an employee classified as disabled is missing an updated IEE or requires additional disability documentation. Management is in the process of developing a fully integrated system.

Effect: Should documentation of blindness or significant disability be found inadequate for an employee, that employee’s labor cannot be included as disabled in the compliance ratio calculation. Should the Organization fail to meet the relevant ratio requirement, corrective action will be required by Source America to correct the deficiency, and non-compliance could ultimately lead to the inability to participate in AbilityOne contracts.

(Continued)

TRESCO, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

Year Ended June 30, 2023

II. AUDIT FINDINGS RELATING TO THE FINANCIAL STATEMENTS
WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
“GOVERNMENT AUDITING STANDARDS” (CONTINUED)

Finding 2023-001 (Continued):

**Failure to Maintain Adequate Documentation on Employees’ Disabilities and to Properly Classify Employees as Disabled or Non-disabled.
(Repeat with Modification)**

Recommendation: We recommend that management continue to work with their payroll service organization to implement within their system, the ability to maintain the data necessary for continuous review of compliance, including adding a field with information on the date of the most recent IEE, such that the system would be able to produce on-demand reports on current compliance attributes. In addition, we recommend that the individual with missing disability documentation that was identified in our testwork be marked as a non-disabled employee in all QER reports until documentation is completed.

Management’s response: Management agrees with auditor recommendation. Refer to Corrective Action Plan for expected date of completion.

III. AUDIT FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD
PROGRAMS AUDIT

Current Year: None.

See independent auditors’ report.

TRESCO, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2023

I. AUDIT FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*.

Finding 2022-001:

Failure to Maintain Adequate Documentation on Employees' Disabilities

Prior Year Response: Management agreed with auditor recommendation.

Current Status: This item has not been corrected. See Finding 2023-001.

See independent auditors' report.

CORRECTIVE ACTION PLAN
Year Ended June 30, 2023**Finding 2023-001:****Failure to Maintain Adequate Documentation on Employees' Disabilities and to Properly Classify Employees as Disabled or Non-disabled.**

Management's view: Although we believe that we made significant progress on these documentation issues (only one exception resulting in an employee incorrectly reported as disabled in the auditor sample), we agree that we have not maintained the documentation related to significant disabilities of qualifying employees to the standard we should expect. We also made a late report (by one day to be sure it was submitted accurately) to SourceAmerica in one quarter of the fiscal year under audit.

Proposed corrective action: We are taking the following actions: Although we made changes to our human resources information system (HRIS) to capture the information necessary to document status of individual eligibility evaluations (IEE) for employees with significant disabilities, we are still in the process of integrating those changes into company operations. The data fields added to the HRIS include the date that the IEE was last updated to ensure that only eligible employees are counted as having a documented significant disability.

We have established the system of record for QER reporting information is the HRIS, rather than other shadow systems that have been developed; those shadow systems are no longer considered in preparing the QER. In recent months, we have relocated the Tresco Works specialist employed to manage this process to the human resources department to better coordinate gathering appropriate documentation during the hiring process. Very recently, we have moved the responsibility of maintaining disability documentation to a different employee already engaged in gathering this documentation during the hiring process. We have continued our series of monthly meetings to review the current status of IEEs, focusing on those due for annual renewal and those for new employees.

Timely QER reporting requires payroll and time reporting data, human resource data, and IEE data, all of which is now being maintained in our HRIS, allowing for better QER and interim compliance reporting.

Anticipated correction date: This is an ongoing process, so a completion date is not feasible. We believe that we have corrected the data in our system by the end of the federal fiscal year on September 30, 2023, and plan to maintain that going forward.

Responsible official: Ultimate responsibility lies with President and CEO Sylvia Washington. There are significant roles for CFO Bill Harty, who now completes the QER; and HR Director Tiffany Romero, whose group maintains human resources records, including records related to significant disabilities and who has responsibility for the IEE update process.